

FINANCIAL TIMES

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catch a cold
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World Business Newspaper <http://www.ft.com>

THURSDAY OCTOBER 3 1996

FTSE 100 index breaks through 4,000 barrier

London's FTSE 100 index surged past 4,000 for the first time, as global equity markets continued to prosper in the light of low inflation and interest rates. Markets in Amsterdam, Brussels, Copenhagen, Dublin, Frankfurt, Istanbul and Oslo recorded all-time highs while on Wall Street, the Dow Jones Industrial Average edged closer to the 6,000 mark, reaching 5,927.26 by lunchtime. Page 15; Lex, Page 14; London stocks, Page 30; World stocks, Page 34

Peruvian jet crashes into sea: A Peruvian Boeing 757 jet carrying 61 passengers and nine crew members on a flight from Lima to the Pacific Ocean after the pilot reported a mechanical failure. Rescuers found no sign of survivors. Page 6

Serbian and Bosnian leaders to meet: Serbian president Slobodan Milosevic is to meet Alija Izetbegovic, his counterpart from Bosnia, in Paris today to push forward the Bosnian peace process. It will be their first bilateral summit since the war. Page 2

Confidence vote for French PM: French prime minister Alain Juppé won a parliamentary vote of confidence after he promised a drive to lower the country's record unemployment. Page 14

EU looks at film guarantee fund: The European Union is considering a loan guarantee operation for film and television production which could lead to the creation of a fund with initial capital of Ecu200m (£250m). Page 3

Bulgaria faces crisis after killings: Bulgaria faces a crisis of confidence following the killing of former prime minister Andrei Lukanov, 68, who became one of Bulgaria's most influential businessmen. Page 2

UK clothing shops probe suppliers

High Street retailers are using UK-based clothing suppliers which pay their staff as little as £1.50 (£2.34) an hour to work in often squalid conditions, a Financial Times investigation has found. Companies have pledged to investigate allegations made by the staff of clothing manufacturers. Reports, Page 9

Japan to resume European investment:

Japanese manufacturing subsidiaries in Europe are set to resume investments there after a strong recovery from a period of losses, a Japanese government survey shows. Page 5

Opposition calls for Yeltsin to quit: Russia's opposition politicians stepped up calls for President Boris Yeltsin's resignation, warning that his prolonged hospitalisation was threatening to plunge the country into chaos. Page 14

US funeral group raises bid: Service Corporation International of the US, the world's biggest funeral operator, turned its battle to take over rival Loewen Group of Vancouver into a hostile bid by raising its all-share offer. Page 15

GM faces strikes in Canada: General Motors faces strikes at its Canadian plants today unless there is a last-minute breakthrough in contract talks with the Canadian Auto Workers union. Page 6

Air traffic control self-off possible: UK transport secretary Sir George Young is resisting a Treasury proposal to revive plans to privatise the air traffic control service before the general election due by May. Page 8; Lex, Page 14

Jardine Fleming loses big funds: Jardine Fleming's fund management arm lost an account worth an estimated HK\$900m (US\$103m) following the revelation of a trading scandal at the Hong Kong investment bank. Page 15

Endesa stops \$1bn Chile move: Spanish utility Endesa temporarily abandoned a \$1bn acquisition in Chile that would have gained it a big platform in Latin American electricity generation and distribution. Page 15

Former Quebec premier dies: Robert Bourassa, twice Liberal premier of Quebec, died in Montreal after a long struggle with cancer. He was 63. Page 6

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STOCK MARKET INDICES	
New York: Dow Jones Ind. Av. 5,927.26 (+21.11)	NASDAQ Composite 1,230.71 (+8.2)
Europe and Far East	
DAX 2,411.84 (+18.63)	DAX 2,411.84 (+18.63)
FTSE 100 4,015.1 (+22.9)	Nikkei 21,498.1 (+35.63)

US LIQUIDITY RATES	
3-month Treasury Bill: 5.00%	Long Bond: 5.85%

OTHER RATES	
UK 3-month interbank: 5.75%	UK 10 yr Gilt: 5.85%
France 10 yr OAT: 5.85%	Germany 10 yr Bund: 5.85%
Japan 10 yr JGB: 5.85%	

NORTH SEA OIL (Average)	
Brent: \$23.15 (23.15)	Oil: 2.365 (2.367)

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Summit breaks up without agreement between Israeli and Palestinian leaders Mideast talks fail to bridge gap

By David Gardner and Patti Waldmeir in Washington

The Middle East peace process suffered a big setback yesterday after President Bill Clinton's crisis summit failed to bridge the gap between Israel and the Palestinians.

But President Clinton announced that the two sides would resume talks on Sunday morning at the Erez checkpoint on the Israeli-Gaza border, beginning what he called "continuous negotiations". Mr Dennis Ross, the top

State Department Middle East negotiator, will be sent to the region to help mediate.

Trying to put a brave face on the stalemate, Mr Clinton said at a Washington press conference: "I'm convinced that these parties are in better shape than they were two days ago, and please, please give us a chance to make this thing work. The Israelis and the Palestinians are clearly talking again at the highest levels." He said both leaders recognised "that there is no alternative to the path of peace".

Behind him on the podium Mr Benjamin Netanyahu, the Israeli prime minister, and Mr Yasser Arafat, the Palestinian leader, sat stiffly, refusing to shake hands or look at one another.

Earlier, Mr Clinton had hosted a working lunch with the two men and King Hussein of Jordan. The summit deadlock will be seen in the US as a defeat for the president, who had hoped for a joint agreement to end the violence which broke out last week after Israel opened a

new exit to an archeological tunnel near Moslem holy sites in Jerusalem.

Palestinian officials said all-night talks had failed because of Israel's insistence on reopening discussions on agreements already reached in the second Oslo peace accord signed a year ago in Washington. They were particularly incensed by a demand from Mr Netanyahu that Palestinian policemen who returned fire against Israeli troops should be "held accountable".

Mr Arafat was reported to be deeply depressed by the lack of progress and by what he saw as the intransigence of his Israeli counterpart. Just before dawn, a distraught Mr Arafat exclaimed: "This is worse than your worst expectations, worse than your worst nightmares."

According to one of his senior advisers, "You've moved 10 steps backwards," said a senior Arab official. The Palestinian leader came to Washington needing to secure Israel's agreement to withdraw from the West Bank

town of Hebron to demonstrate to supporters that the peace process still had momentum. Under the accord, Israeli troops should already have been redeployed. The Palestinians are insisting this commitment be carried out immediately. But Israeli officials said withdrawal now was out of the question. Mr Clinton said yesterday that the new round of talks would put "a priority on Hebron", as well as a priority on speed.

Peace from heaven, Page 4

Telekom set to reveal plan for DM3bn payout

Group paves way for flotation with move to double dividend

By Hugo Dixon in London

Deutsche Telekom, the German state-owned telecoms operator, plans to announce tomorrow a DM3bn (£2bn) dividend forecast for next year, double the DM1.5bn it has said it would pay investors this year.

The doubling of the payout is intended to prepare the ground for Deutsche Telekom's flotation, which kicks off tomorrow with the publication of its so-called "pink herring" prospectus.

This will include a profit forecast for 1996 as well as the 1997 dividend forecast. A price range for the shares, however, will not be published until the "red herring" prospectus on October 22.

The share offering is expected to be Europe's largest ever, raising DM10bn-15bn. A high dividend is considered necessary to attract German retail investors, most of whom have not traditionally bought shares, preferring instead to put their savings into bonds.

If the company's entire equity is valued at DM60bn - roughly in the middle of the range expected by the market - the DM3bn dividend would give a net yield of 5 per cent.

Adding back the tax credit investors receive on dividend payments by German companies would give a gross yield of 7.1 per cent, roughly one

percentage point higher than the yield on German government bonds.

The company refused to comment on the size of dividend forecast. But an adviser to the issue said the DM3bn figure had been decided.

Meanwhile, in a report due out today, Deutsche Morgan Grenfell, global bookrunner for the flotation, will forecast that Deutsche Telekom's net income will rise from DM1.4bn this year to DM4.4bn next, and DM3.5bn in 2000.

Most of the big improvement in profits between this year and next will come from the absence of a DM2.6bn exceptional charge, according to the report.

In subsequent years, profits will be boosted mainly through a reduction in interest charges. DMG predicts these will fall from DM7.7bn in 1996 to DM4.3bn in 2000.

Interest charges are expected to come down so rapidly because Deutsche Telekom will be paying off its heavy debt burden. DMG forecasts that net debt will fall from DM52bn at the end of 1996 to DM38bn by the end of 2000.

The report predicts Deutsche Telekom's dividends will not grow as rapidly as earnings in coming years. For 2000, it forecasts a dividend of DM4bn.

Deutsche Telekom quiet on Indonesia stake talk, Page 18



Chris Patten warns Beijing over its plans to scrap Hong Kong's Legislative Council as he makes the last policy address by a British governor of the colony before next year's transfer of sovereignty to China.

Beijing warned over Hong Kong

By John Riddling in Hong Kong

Mr Chris Patten yesterday warned Beijing against replacing Hong Kong's legislature after 1997, in the last policy address by a British governor of the colony before next year's transfer of sovereignty to China.

He described the plan as unnecessary, provocative, and destabilising, and said any laws that emerged from a "provisional" legislature set up by Beijing ahead of the handover would be vulnerable to legal challenge in the courts.

Citing the Joint Declaration - the Sino-British agreement on Hong Kong's handover

which gives the UK responsibility for the administration of the territory up to June 30 - Mr Patten said: "We will not assist a provisional legislature's establishment, its operation or its ability to withdraw legal challenge."

"We will shortly be coming to a crunch of sorts," he said, referring to Beijing's plans to scrap the Legislative Council, elected last year under political

reforms introduced by the governor.

Mr Patten struck a largely optimistic tone about Hong Kong's prospects, urging the territory to uphold its autonomy and stressing its potential as a regional business and financial centre.

But he said continued success would depend on the defence of that autonomy, and he set a series of benchmarks

to gauge whether this is maintained. These ranged from whether the territory's civil service remained professional and meritocratic, and whether its government was writing its own budget, to whether its monetary authority was managing the territory's foreign exchange reserves without

Continued on Page 14
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July 1996

TOTAL FINANCING OF
£83,000,000
FOR THE MANAGEMENT BUY-OUT
OF
SAIA-Burgess Electronics
SWITCHES - MOTORS - CONTROLLERS

from
Williams Holdings PLC

Structured, Led and Arranged by
SBC Equity Partners Ltd
and
Quadrige Capital Management GmbH

Equity Provided by
Indelec Holding AG
(Managed by SBC Equity Partners)
GCM Partners Ltd
Williams Holdings PLC
Management of SAIA - Burgess Electronics AG

Senior Debt Facilities Arranged by
The Royal Bank of Scotland
Acquisition Finance

Co-Underwritten by
The Royal Bank of Scotland plc **Dresdner Bank AG**

Mezzanine Financing Arranged and Underwritten by
Citibank, N.A.

Advisers to the Buying Group
Allen & Overy
Arthur Andersen & Co.

SBC Warburg
A DIVISION OF SWISS BANK CORPORATION

هكزان النحل

Bosnian and Serbian presidents to meet in Paris today in first post-war summit

Leaders prepare to strengthen links

By Laura Silber in Belgrade

President Slobodan Milosevic of Serbia will meet his counterpart from Bosnia, Mr Alija Izetbegovic, in Paris today, to push forward the Bosnian peace process in their first bilateral summit since the war.

There remain several obstacles to full diplomatic relations, but both sides want to begin the process, said a western official. The two presidents are also likely to agree to open air and rail links between their two countries. Previous agreements, first in Dayton last November, to establish full diplomatic relations, and open telephone and transport links, have not been fulfilled.

Mr Milosevic had stalled on normalising relations with Bosnia, in an effort to make Sarajevo drop its lawsuit before the International Court of Justice in The Hague over Serbian genocide in Bosnia. He had also insisted that sanctions should be lifted before the Paris talks.

Croat Federation and Republika Srpska, the Bosnian Serb entity. Mr Izetbegovic, a Muslim, will serve for the next two years as chairman of Bosnia's three-man presidency after winning the most votes in the September 14 elections.

Imposed in June 1992, sanctions were suspended last November when President Milosevic signed the Dayton accords. According to the Dayton agreement, sanctions were to be lifted automatically 10 days after "free and fair elections".

divided on future steps Yugoslavia must take to remove the so-called outer wall of sanctions, imposed in Dayton, and re-join international organisations, such as the International Monetary Fund and the United Nations.

Nato debates how to live with Russia

Bruce Clark reports on differing alliance views of how to accommodate the giant to the east

As Russian politicians blow hot and cold in their comments about Nato, a lively debate is raging in western capitals over how far the 16-member bloc should go to assuage Moscow's strongly felt concern over plans to expand the alliance.

Mr William Perry, US defence secretary, gave his own version of the challenge when he attended a meeting of his Russian and western counterparts in Norway last week.

"Nato is building a circle of security in Europe... (and) I believe that Europe cannot be secure unless Russia is inside that circle, working together with us," he said.

Mr Perry went on to air some ideas on how Russia might be drawn into the European security order without altering the basic fact: full Nato members are bound

by a pledge to defend one another - in article five of its founding treaty - while countries associated with Nato, however closely, are not.

The US Pentagon says Russia could be involved in virtually everything the alliance does except the fulfilment of its basic "article five" obligations - which in any case are taking up a diminishing share of Nato's energy as new tasks, such as peace-keeping, take pride of place.

US officials have even suggested that Russia post officers to Nato's influential permanent bureaucracy, the International Military Staff. No other non-member of the alliance has received such an offer.

contacts with Russia that some of Nato's smaller members, and would-be members, fear the alliance's ability to carry out its core functions could be watered down.

It is prepared if necessary to expand the alliance without Moscow's assent

But the US administration's enthusiasm for a closer Nato-Russian relationship is tempered by a qualification: while the west will do everything it can to improve security co-operation with Russia, it is prepared if necessary to

expand the alliance without Moscow's assent. Britain, which was cautious when the idea of Nato enlargement was first aired, has swung round to the US position which insists that Russia must not be allowed to veto or slow down the expansion any further.

This means sticking to the timetable already sketched out by the alliance: entry talks with at least three countries - Poland, Hungary and the Czech Republic - will be launched at a summit in summer 1997, leading to expansion as soon as 1999.

But recent pronouncements from France and Germany have raised questions about whether they could contemplate enlargement without some accommodation with Russia. France, which has offered to host next year's summit, believes it should be attended by

Russia - as well as Ukraine and other east European countries. Without saying that Russian assent is a precondition for enlargement, French officials say it is highly desirable to keep the two diplomatic processes - enlargement and Nato-Russian relations - on roughly parallel tracks.

Mr Helmut Kohl, the German chancellor, stressed during his recent visit to Moscow that the west should not take advantage of President Boris Yeltsin's illness to force the pace of enlargement.

Neither the French nor the German view is in outright contradiction of the US or British one. But differences of emphasis within the western camp have threatened to undermine the position of Mr Javier Solana, Nato secretary general, as he seeks to negotiate on behalf of the whole alliance.

Bulgaria faces new crisis after mafia-style killing of ex-premier

By Anthony Robinson, East Europe Editor

Bulgaria faces a new crisis of confidence following the mafia-style killing yesterday of Mr Andrei Lukanov, a former prime minister who became one of Bulgaria's most influential businessmen.

Mr Lukanov, 58, a Moscow-born former communist who ousted the veteran dictator Todor Zhivkov in 1990, was shot in the head and heart outside his front door in a murder without witnesses that bore the hallmarks of a professional assassination.

The view in Sofia was that the assassination mainly reflected conflict between powerful economic interests, but would have inevitable political repercussions on an unpopular government presiding over a deep financial crisis and facing presidential elections later this month.

The killing is the latest bad news for the government which last week was forced to triple annual interest

rates to 300 per cent, put nine loss-making banks into special administration and speed plans for a fire-sale of state companies to counter a run on the banks and a haemorrhage of reserves.

The news did not immediately affect markets where Bulgarian Brady bonds strengthened slightly on Friday's announcement of a better-than-expected first B3 rating from Moody's international credit rating agency, roughly on a par with Peru.

Mr Lukanov, who transformed the communist party into the socialist party and presided over Bulgaria's foreign debt default in 1990, was jailed without trial for six months in 1992 by the anti-communist Union of Democratic Forces (UDF) government and remained an influential but somewhat dissident figure in the Socialist Party.

Two months ago, Mr Lukanov, who had close former party and business connections with powerful figures in the Russian oil and gas

industry, was suddenly removed from the chairmanship of Topenergy, a Bulgarian-Russian joint venture for the transport of Russian gas and oil through Bulgaria to Turkey and the southern Balkans.

He was replaced by Mr Iliya Pavlov, chairman of Multigroup, the most powerful of the business groups which control large sections of the Bulgarian economy. The full story behind his sudden removal remains unclear.

Mr Nikolai Vulkanov, vice-chairman of Multigroup, hinted that Mr Lukanov was replaced because the socialist government was refusing to approve favourable concessionary terms for the company while the former socialist party leader remained at the head of the company.

This reflected the increasing rivalry between Mr Zhan Videnov, the prime minister, and Mr Lukanov, who became an increasingly outspoken critic of the slow

pace of economic reform and the progressive deterioration of the economy.

Mr Lukanov, a multi-lingual politician, was increasingly critical of the prime minister whose inability to carry through the closure of bankrupt state companies and insolvent banks has brought the country to the brink of financial collapse.

After Mr Lukanov's removal, concession terms were agreed and Russian gas recently started to flow through Bulgaria along a new pipeline into Greece.

This is part of a planned \$500m investment in new pipelines and pumping stations to transit more than 30bn cu metres of Russian gas through Bulgaria to Turkey and the southern Balkans.



Andrei Lukanov in parliament in 1990. The ex-premier became one of Bulgaria's most influential businessmen. AP

Warning light at Dehaene's 'turning point'

Belgian PM's budget-by-decree is marked by political compromise in spite of tough choices made in search of Emu fiscal discipline, writes Neil Buckley

It was billed as the Budget of the Century; it turned out, economists are saying, to be a typical compromise à la Belgique. On Tuesday Mr Jean-Luc Dehaene, Belgian's prime minister, presented a tough 1997 budget which most commentators agree should satisfy the Maastricht treaty convergence criteria - in spirit, if not to the letter - and guarantee Belgium's membership of the European single currency club.

The budget deficit is projected to fall to 2.9 per cent of gross domestic product, just

below the 3 per cent Maastricht target, while BFR370bn (\$12bn) of debt reduction measures will cut the debt ratio by four percentage points to 127 per cent of GDP.

That will still leave Belgium's debt mountain at twice the 60 per cent convergence target. But a 10-point reduction in the ratio from 1993 to 1997 will support Belgium's claim to be making strenuous efforts to reduce the debt at the "satisfactory pace" the Maastricht treaty requires. It hopes its EU partners will overlook the fact that most of the measures announced in the budget are one-offs such as privatisation receipts and a BFR22bn surplus on central bank gold sales.

Mr Dehaene even joked that he would no longer need to talk about Maastricht and monetary union and could get on with other matters.

But Mr Dehaene failed to make bigger structural changes economists had called for. Critics say he made disappointing use of special powers he won in the summer to legislate on the budget by decree - justified by the need to make sure Belgium qualified for the euro, but providing a rare opportunity to make lasting changes without having to battle with parliament.

True, the Belgian premier did not shy away from unpopular measures. Unions are already protesting about

Belgian budget under control but debt still stubbornly high



Belgian government forecasts

his plans to harmonise the retirement age for men and women at 65, requiring women to work five years longer than at present before receiving a full pension. Reductions in healthcare spending and child allowances will also arouse discontent.

The budget did not, however, tackle structural problems such as the huge costs of its system of publicly funded pensions for public employees, and the effect of Belgium's high taxation burden on the country's competitive position.

While Mr Dehaene's special powers allowed him to bypass parliament, he could not escape the demands of the other members of his delicately-balanced centre-left coalition government. Horse-trading between the four coalition parties is said



Prime Minister Jean-Luc Dehaene unable to escape demands of coalition partners

to have been intense. "The budget was politically very balanced, but really it needed to be politically imbalanced to address the fundamental problems," said Mr Peter Praet, chief economist at Belgium's largest bank, Générale de Banque.

Economists hope Mr Dehaene will make further use of his special powers, which also cover measures to reform the social security system and which extend into next year, to confront longer-term challenges.

One fundamental problem the government did vow to tackle is Belgium's crippling BFR9,278bn debt. This mountain of borrowing is a legacy of the country's economic crisis in the late 1970s and early 1980s in the wake of the oil price shock which hit Belgium's large but already

declining heavy industrial sector particularly hard. While successive governments have brought spending under control, real efforts to cut the debt have only been possible in the last few years.

A recent study by economists at Banque Bruxelles Lambert shows how heavily the debt burden weighs on Belgium. Strip out interest charges and the budget appears to be being prudently managed.

For 1996, primary spending showed a surplus of 5 per cent of GDP, one of the highest in the EU, compared with an average primary deficit of 0.1 per cent in Belgium's three neighbours, France, Germany and the Netherlands.

But while interest charges on debt in the neighbouring countries averaged 3.9 per cent, pushing their average budget deficit up to 4 per cent, Belgium's interest charge was a hefty 9.1 per cent, transforming its primary surplus into a 4.1 per cent deficit.

EUROPEAN NEWS DIGEST

Paris soothes Italian anger

France said yesterday it wanted Italy to be among the founder members of a single European currency, but the lira first had to "catch up" with the franc. President Jacques Chirac's spokeswoman, Ms Catherine Colonna, was seeking to clarify the French position after Mr Chirac triggered a diplomatic row with Rome on Tuesday by saying Italy might not fit to join European monetary union from the start in 1999.

Ms Colonna said Italy's ability to be in the first wave of single currency members hinged partly on its early re-entry into the exchange rate mechanism at a more appropriate level. "We want the lira to rejoin the ERM rapidly... But, in any case, it must occur at an appropriate level... and there is undoubtedly some catching-up to do."

In his speech this week Mr Chirac had vociferously echoed French businessmen in blaming a cheap lira for hurting French industry and triggering a flood of car and textile imports. His comments infuriated the Italian government, which had just adopted a tough austerity budget in an attempt to qualify for the single currency. Reuter, Paris Editorial comment, Page 13

'Progress' on EU security

France and Germany have made "good progress" towards agreement on new European Union arrangements for dealing with internal police and security problems, Mr Klaus Kinkel, Germany's foreign minister, said yesterday after meeting his French counterpart, Mr Hervé de Charette, in Paris.

The ministers met to prepare for Saturday's EU summit in Dublin, though no joint Franco-German plan to give "new impetus" to the stalled intergovernmental conference negotiation is expected until just before the second EU summit in the Irish capital in December.

The two countries have also narrowed their differences on the issues of improving efficiency and democracy in EU decision-making, as well as giving EU foreign policy a higher profile. France, however, remains keener to give more say to national parliaments than the German government which wants to see the European parliament's role reinforced. David Duchan, Paris

Sweden urges EU expansion

Mr Göran Persson, Sweden's prime minister, yesterday warned that any delay in moves to enlarge the European Union could jeopardise stability on the Continent and said he would press for an acceleration of the enlargement process at this weekend's Dublin summit.

Expanding the EU to include former communist countries was vital to building "a safer, more successful Europe", he said. The EU should not discriminate between aspirant members, but allow all applicants to begin membership negotiations at the same time. If countries were told simultaneously that they could not yet enter either Nato or the EU it would lead to increased insecurity. Discriminating between applicants would threaten democratisation. Hugh Carnegy, Stockholm

Romanian bank sales delay

Bank privatisation in Romania is unlikely to proceed until next year following parliament's rejection of a banking bill for the second time. The bill, first drafted more than a year ago, failed to secure a majority in the lower house late on Tuesday and will now have to wait until after next month's general election.

Romania has more than 30 commercial banks but the big four state commercial banks still dominate the sector, accounting for about two-thirds of total assets. A World Bank mission is in Bucharest to review a financial sector loan under which Romania is already supposed to have privatised two state banks. The International Monetary Fund has already frozen its lending to the country due to the authorities' failure to free the exchange rate.

Analysts say the governing Party of Social Democracy, which is trailing the centre-right opposition in recent polls, has been unwilling to give up control of state banks before the election. State banks have helped the authorities maintain the currency at an artificially high rate and are used to channel large subsidies to agriculture and state industry. Virginia Marsh, Budapest

BSE panel may call Delors

MEPs could call top officials, including former European Commission president Jacques Delors, to face a committee of inquiry probing allegations that the EU was negligent in dealing with BSE, or mad cow disease, in the early 1990s.

Some are pressing for former senior officials to be summoned to the inquiry following evidence from top civil servants this week that the Commission failed to respond to pleas for more resources to tackle BSE during four crucial years of the disease's development.

"I think a majority of MEPs on the inquiry will want to call those politically responsible for decisions between 1990 and 1994. We have been told that the Commission rejected requests for more vets to monitor BSE. We need to know why this happened as the crisis was growing," said Mr Reimer Boge, a German MEP chairing the inquiry.

Mr Douglas Hogg, the British farm minister, has turned down a request to appear. Caroline Southey, Brussels

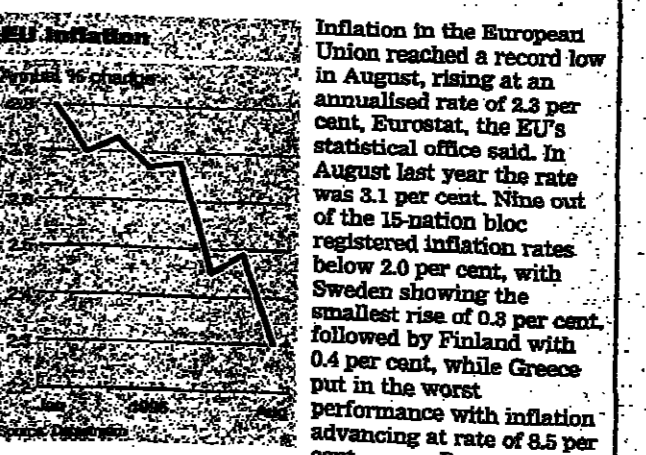
Latvia's finance minister quits

Latvia's finance minister, Mr Aivar Kreituss, was forced to step down yesterday after being dismissed from his own political party. Mr Andris Sklele, the prime minister, will assume the post temporarily and take next year's deficit-free budget through parliament.

Mr Kreituss was obliged to quit because a minister who is not a member of a party cannot be in the government. He was sacked from the Democratic Party Samieksis, the largest in the six-party government, amid rivalries among the leadership and accusations that he was failing to fulfil its programme. Reuter, Riga

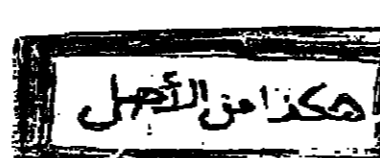
ECONOMIC WATCH

EU inflation falls to 2.3%



Inflation in the European Union reached a record low in August, rising at an annualised rate of 2.3 per cent, Eurostat, the EU's statistical office said. In August last year the rate was 3.1 per cent. Nine out of the 15-nation bloc registered inflation rates below 2.0 per cent, with Sweden showing the smallest rise of 0.3 per cent, followed by Finland with 0.4 per cent, while Greece put in the worst performance with inflation advancing at rate of 8.5 per cent. Reuter, Brussels

Belgian unemployment in September fell to 14.2 per cent from 14.5 per cent in August. The government deficit rose to BFR1.1bn (\$450m) from BFR5.6bn a year earlier. Sweden's trade surplus was steady in August at SKR9.5bn (\$1.4bn).



UK Bank opposes move on Emu

By Gillian Tett, Economics Correspondent

The Bank of England yesterday said it opposed the shortening of the legal transition period for the introduction of the single European currency.

Mr Steven Collins, head of the Bank's monetary stability wing, told a conference in London: "There remain a few outstanding issues... one of the most important is the legal end state of the transition."

At the end of last year the European governments decided the notes and coins of the single currency would not be introduced until 2002, even though monetary union will start in 1999.

The governments agreed that it could take up to six months to replace national cash with the new euro cash. Consequently, it was assumed in early discussions that the legal transition period for Emu would last until the middle of 2002.

However, Brussels is arguing the transition period will finish at the end of 2001 by the latest.

This change partly reflects a desire to simplify the timetable, but some observers suspect it highlights a new political momentum to introduce the euro as soon as practically possible - rather than waiting until 2002. Although other European countries have accepted this switch, UK officials fear it will be very difficult for businesses to change over to the new currency rapidly.

Mr Collins said yesterday: "We have been arguing that it may be impractical for banks and others to switch over to the euro on one day (at the end of 2001)."

The comment comes as the European Commission prepares to issue its legal proposals for Emu in the coming days.

The recent meeting of European ministers in Dublin showed there is now a broad consensus about the shape of this legal framework. In particular, most countries have now accepted the framework will be introduced in a manner which ensures the key principles apply to all European Union countries - even if they do not participate in Emu.

But UK officials are at odds with continental countries over one part of the framework associated with the euro's introduction. The problem has arisen because the delayed nature of the changeover means that at several stages creating possible legal confusion as more than one currency exists at one time.

Editorial comment, Page 13

CORRECTION

European judicial area

The number of requests for information issued by Milan magistrates in the "Clean Hands" investigation is 500, and not as stated in our October 2 report, "European judicial area sought." The error was due to an incorrect official translation.

EU shapes plan for film guarantee fund

By Emma Tucker in Brussels and Alice Rowsthorn in London

Senior civil servants from European Union culture ministers will meet in Brussels today and tomorrow to finalise proposals for a guarantee fund for film and television production. The proposals, which will be scrutinised by finance ministers before being submitted to a meeting of EU culture ministers in December, and will require approval by

all member states, could lead to the creation of a fund with initial capital of Ecu200m (\$250m).

The money, nearly half of which would come from the EU, would be used to guarantee loans to an estimated 415 feature films, 215 television productions and 60 catalogue operations over the next 10 years. On the most pessimistic assumption, the fund could function for 17 years without making a further call on the EU budget.

European entertainment groups, notably PolyGram of the Netherlands, have been lobbying forcefully for the creation of a loan guarantee fund for film and television. However, objections have been voiced by several member states on the grounds that the fund would intensify EU budgetary pressures.

A guarantee fund to support Europe's film industry is popular among member states such as France that are worried about the growing presence of US culture on

European television and film screens. It is also likely to be more acceptable to countries such as Britain, Germany and Sweden that do not want to protect Europe's audiovisual industry through the use of content quotas. Last year, French-led attempts to stem the inflow of US-made products by tightening quotas imposed on European broadcasters caused a split.

The European Commission, in conjunction with the European

Investment Fund, asked various departments to evaluate the viability of establishing a film guarantee fund. Their conclusions are broadly favourable.

A paper prepared for today's meeting claims that a fund financed by Ecu90m of the EU money already allocated for media purposes, with the rest coming from the private sector, could "generate real value" for the audio-visual industry.

On the most optimistic esti-

mate, the fund could show a profit for 11 years and remain in the black after 2007. Even pessimistic assumptions suggest it will be profitable for six years, stay in the black until 2003 and will not exhaust its capital until 2012.

In theory, the fund would then require further investment, but the Commission is confident that, by then, it would have stimulated the sector so successfully that a replacement would not be required.

Erbakan trip prompts policy fears

PM's itinerary has the secular establishment in an uproar, writes Kelly Couturier in Ankara

Turkey's prime minister, Mr Necmettin Erbakan, yesterday embarked on a controversial trip to Egypt, Libya and Nigeria that underscores the Islamist leader's resolve to chart a new course in his country's foreign policy. It also has Turkey's secular establishment in an uproar.

The visits to Libya and Nigeria - Egypt was reportedly added later to make the whole trip more palatable to critics - is being described officially as an attempt to increase economic ties with its African neighbours and, specifically, to persuade Libya to repay the \$365m it owes Ankara.

However, Mr Erbakan's journey to two countries that are blacklisted by the west - Libya for supporting terrorism and Nigeria for widespread human rights abuses - has spurred rumour within Turkey's secular political establishment.

While it can be argued that the prime minister's foreign policy initiatives during his three months in office have more to do with tone

Islamists, has been effectively sidestepped by their leader. Observers point to Mr Erbakan's reported private meetings with ambassadors and other representatives of Islamic countries, and to his determination to undertake the Libyan trip in spite of his coalition partner's objections.

However, the prime minister's contacts with Islamic opposition groups outside Turkey, such as Tunisian opposition leader Rashid al-Gannushi, and his state-

ments of support for Egypt's Islamist opposition, are seen by some as potentially more harmful for Turkey than his trip to Libya.

Egypt and Tunisia are both reported to be concerned about Mr Erbakan's active interest in Islamic opposition groups in their countries. That concern led Mr Abdullah Gul, a Welfare party minister, to stress at a news conference before the prime minister's trip that Turkey has no intention to meddle in any nation's inter-

national affairs.

Among Turkey's western allies, Washington, already irritated by Mr Erbakan's visit to Iran in August, has signalled its concern about the Libyan visit. However, the new government has demonstrated its willingness to meet its commitments to the west. Despite opposition from within his party, Mr Erbakan has gone ahead with Israeli-Turkish military co-operation arrangements, and has continued Turkey's assistance to Operation Pro-

vide Comfort, the US-British-French allied air force based in Turkey that patrols northern Iraq.

Moreover, Turkey still clings to its commitments as a member of Nato and the Organisation for Security and Co-operation in Europe and, according to Mr Michael Lake, the European Union's representative in Ankara, its new customs union with the EU is working normally. "Turkey's allies should realise," said Mr Lake, "that Turkish foreign policy has not changed in concrete terms and we should be wary of throwing out the baby with the bathwater."



Necmettin Erbakan: off to Egypt, Nigeria and Libya

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OCTOBER 3 1996

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...likely to be among the European currency...

EU security

...inside "good progress"...

EU expansion

...it's prime minister...

ink sales delay

...delays in the...

may call Delors

...Mr Delors...

falls to 2.3

NEWS: INTERNATIONAL

Water, water everywhere and not a drop of profit

Turkey may spend \$200m on a dubious water exporting scheme, writes John Barham

High in the pine-clad hills above Turkey's Mediterranean coast lurks one of the whitest of its many white elephant projects. The idea behind the blandly-named Manavgat River Water Supply Project always seemed a little fantastic: to export vast quantities of drinking water to neighbouring Middle Eastern countries, where water shortages are expected to become more acute as populations grow.

anchored three kilometres offshore. There, a converted oil supertanker would load up with enough water to supply a city of 1m people for one day. But Manavgat never caught on. Started four years ago, it has consumed more than \$35m and remains half finished. It has yet to sign up a single client. Mr Hakan Tepencecik, the civil engineer working on the project, says water is above all a political commodity: "This project will be decided for political reasons, not economic reasons."

Mr Necmettin Erbakan, Turkey's Islamist prime minister, is offering to sell its water to Libya, which he is visiting this week. Mr Erbakan, indifferent to Libya's pariah status in the west, or the large debts it owes Turkish contractors, apparently sees Manavgat as a way of strengthening political ties, not necessarily as a way of making money. Manavgat, located in splendid mountain scenery, receives few visitors. But Mr Kamil Cengiz, the project's chief engineer, says he showed a delegation of Libyans around in June. To the delight of Manavgat's supporters, Mr Erbakan has urged that other water projects be considered on the larger Ceyhan and Seyhan rivers, that also

flow into the Mediterranean. In spite of Mr Erbakan's enthusiasm, the economics of Manavgat remain daunting. Turkey's treasury, on the verge of bankruptcy, will have to spend at least another \$35m to finish the project. Either Turkey, the importing country or possibly a private operating company would need to spend another \$10m to convert an oil supertanker to water carrier. As many as nine would be needed for Manavgat to work at full capacity. On top of that, the importing country would have to build port installations, a reservoir and distribution systems. These would probably cost another \$30m. If the capital cost of almost \$200m look steep, operating costs look equally

challenging. Manavgat water could sell at between 30 cents and \$1.75 per cubic metre, but transport costs would consume about three quarters of this. Transport costs would be lower if distances from Manavgat were smaller. Manavgat water would be cheaper for Israelis than Libyans. In fact, Israel did show some interest in Manavgat but Israeli officials say they doubt the project could be economically viable. In any case, political realities have changed. Mr Erbakan is no friend of Israel. Greece's Aegean islands could also be an attractive market. They are close by and a reliable water supply could transform their tourist industry. Yet Mr Erbakan is as much of a nationalist as



his predecessors. In spite of his efforts to improve Turkey's relations with the Islamic world, he has made little progress in overcoming Ankara's dispute with Baghdad and Damascus over its huge South-eastern Anatolia Project. This \$32bn hydroelectric and irrigation project diverts water from the Tigris and Euphrates rivers to develop Turkey's poorest regions. Although the politics of water predominate now, there may come a time when population growth and diminishing water supplies transform water into an invaluable commodity. If so, Manavgat's pristine water will finally seem not a white elephant but a godsend.

Doctors may alter heart treatment

By Daniel Green

Doctors may change the way they treat heart attack victims, following publication today of a paper in the New England Journal of Medicine. It shows that most people who have had heart attacks would benefit from taking a medicine that cut cholesterol levels, even if their cholesterol is normal. The five-year study of 4,159 patients showed people taking pravastatin, made by Bristol-Myers Squibb of the US, had less chance of a second heart attack or stroke than those on a placebo. Professor John McMurray, a cardiologist at Glasgow's Western Royal Infirmary, said the results meant "most" of the UK's 1.4m heart-attack patients would be eligible for treatment with the drug, which costs about £1 a day in the UK. Pravastatin, called Pravalcol in the US with other names elsewhere, is one of a group of related drugs whose sales are among the fastest growing in the world. In the trials, those on the drug had a 24 per cent lower chance of a second heart attack than those on a placebo. The likelihood of bypass surgery was 28 per cent lower, with similar falls in the chances of a stroke. The drug was most effective in the 576 women in the trial, for whom the drug cut the chances of a heart attack by 46 per cent. But the authors report that although patients on pravastatin had fewer heart attacks or strokes, overall mortality level was not significantly better. Bristol-Myers Squibb says too few deaths occurred of any kind to be statistically significant. Previous studies with cholesterol-lowering drugs have suggested lower cholesterol may be related to other forms of death such as suicide. But the authors say the study "gives new importance to cholesterol-lowering therapy".

Taliban victory sends shockwave through Asia

By Farhan Bokhari, Sander Thoenes and Gillian Tett

The sweeping military success of the Taliban Islamic movement in Afghanistan has upset the strategic balance in the surrounding region and sent a shock wave through the Commonwealth of Independent States. The government of Kazakhstan yesterday confirmed that an emergency summit of ex-Soviet republics, first proposed by Russia, would be convened in Almaty at the end of this week in the hope of co-ordinating a response to the crisis. While Russian warnings of an imminent threat to the heart of the CIS were dismissed as wild exaggeration by some observers, the Taliban victory is bound to alter the odds in the grinding border war that Russia and other ex-Soviet forces have waged in Tajikistan since 1992. "The situation in Afghanistan greatly worries us, and it obliges us to reinforce our external border," said President Inamullah Rakhmonov, the Moscow-backed leader of Tajikistan as the Taliban leaders tight-

Former Soviet republics call emergency summit as fears grow among Tajikistan's Moscow-backed leaders



ened their grip on Kabul. So far, the most dramatic comment on the Taliban victory has come from Mr Alexander Lebed, the Russian national security adviser, who suggested that the ancient city of Bokhara in Uzbekistan could come under threat. "If Taliban, backed by Pakistan, reaches the borders with Uzbekistan and Tajikistan...they will wipe away the Russian border posts and see the road to the north set free," he said. A western diplomat in Tashkent, the Uzbek capital, described this comment as "scare tactics" which may have been designed to "pull back into the fold" the government of Uzbekistan which has sought to distance itself from Russia on security and defence issues. But in Pakistan, diplomats said the strong reaction from Russia and other ex-Soviet republics might be one of the reasons why the Taliban has



A Taliban fighter; success upset strategic balance

stepped back from confrontation with one rival warrior, the ethnic Uzbek commander General Abdul Rashid Dostum. The newly-installed regime in Kabul was yesterday intensifying its pursuit of Mr Ahmed Shah Masood, the former defence minister, who has retreated to his Panjshir valley stronghold. But it appeared to be avoiding any immediate clash with Gen Dostum, whose tanks and heavy artil-

lery were dug in to both ends of the strategic Salang tunnel north-west of Kabul. Experts on Tajikistan said the Taliban victory could either embolden the coalition of anti-communist and anti-Russian forces who make up the Tajik opposition - or it could force all the Tajik factions into a Russian-arranged compromise. The outcome will depend on whether the Tajik opposition forces act according to ethnic loyalties or religious

ones. If religious ties come to the fore, the Taliban and the Tajikistan opposition could make common cause as Moslems against the Moscow-aligned regime in Dushanbe which has never ceased to describe itself as communist. But tribal loyalties stand in the way of such an alliance. The Tajikistan opposition has found succour in northern Afghanistan from Uzbeks and fellow Tajiks - rivals of the Pushtu who dominate Taliban. Mr Abdulaziz Kamilov, the foreign minister of Uzbekistan, said in London yesterday the fighting in Afghanistan was a matter of vital concern to the west because of the illegal trade in drugs and weapons it had spawned. He called for a negotiated settlement based on respect for Afghanistan's soviet legacy and the right of its people to choose their own political system, with the UN as peace-broker. Experts on the region say that since the Soviet collapse, Tajikistan has become a key exit route for Afghanistan heroin. Paradoxically, the advent of the zealously Moslem Taliban is believed to have

fuelled this trend. The Islamic movement's efforts to curb drug cultivation in parts of Afghanistan have apparently forced the trade northwards. The reasons why the Taliban has enjoyed such spectacular military success are still something of a mystery. Pakistan has officially denied charges by the former government of Mr Burhanuddin Rabbani, the president who was ousted last week, that Islamabad gave arms and training to the movement which largely consists of former students of religious schools. But Pakistan's independent religious groups helped the Taliban. Despite the alarm in the region, potential investors seemed unimpressed by the Taliban successes. Unocal, the US oil company which wants to build a pipeline from Turkmenistan to Pakistan via Afghanistan, yesterday said that recent events could give a boost to the project. "If this leads to peace, stability and international recognition, then this is a positive development," said Mr Chris Taggart, a Unocal vice-president.

Industrial heartland shut down as Russia stops supplying grid Power failures hit Kazakhstan

By Sander Thoenes in Almaty

The industrial heartland of Kazakhstan shut down in a chain reaction of power failures yesterday after Russia decided to cut off electricity supplies. The Ekibastuz power station, Kazakhstan's largest, broke down on Tuesday while trying to meet a power shortage after Russian power stations stopped supplying the power grid of northern Kazakhstan. With the two main suppliers missing, a number of other power plants could not keep up supply of the required voltage and shut down as well.

"It was like an avalanche," said Mr Anatoly Dubatov, head of the energy department at Kazakhstan's Ministry of Energy and Coal Industry, adding that the power supply in the grid dropped almost by half. "We've never had it as bad as this." "Half of Kazakhstan sits in the dark," said Mr Alexander Mashkevich, vice-president of Eurasianbank, which owns a group of large mines, smelters and power plants in northern Kazakhstan. "The energy system has reached a complete cul-de-sac. No one guarantees payment for energy and even consumers who have paid are not guaranteed elec-

tricity," Mr Mashkevich said. Russia cut off electricity supplies to Kazakhstan's north to enforce payment of a reported \$600m in debts; Kazakhstan, in turn, owes \$370m of the debt but has accused Russia of failing to pay for coal supplies and rent of the Baikonur space centre. Rich in oil and gas, Kazakhstan has been unable to supply its industries and citizens with sufficient heating and electricity for years, due to poor management and a looming debt crisis. Rather than cutting off non-payers, the power monopoly Kazenergo has shut off whole regions whenever a shortage arose.

Pressed by Russia's cut-off, the Kazakh government suddenly put Kazenergo up for tender yesterday to international power operators. Tractebel, a power operator from Belgium and Asea Brown Boveri, the Swedish-Swiss industry group, have expressed interest in the concession, but such is the panic that bids are due next week. Tractebel took control of the heating and power supply in the capital of Almaty earlier this summer. "This is great news," Mr Mashkevich said. "Finally the market will come into play here. Who pays gets electricity. Who does not gets cut off."

'Peace comes from heaven - and perhaps a gun'

Judy Dempsey hears Israelis' views following last week's violence

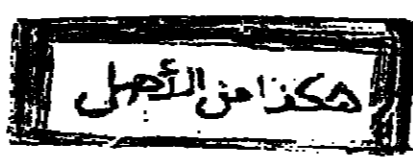
When Israelis last week saw television pictures of armed Palestinian police taking aim at Israeli troops in the West Bank and Gaza, it was not the fighting that disturbed them. What horrified them was the fact that the Palestinians were armed by agreement of the Israeli government. This has put the security issue, never far from the thoughts of every Israeli since the establishment of the state of Israel in 1948, back at the top of the agenda. If the peace process, accelerated with the Israeli-Palestinian Interim Agreement of 1995 that gave Palestinians the right to have their own armed police force, is to be revived, they say, the security issue must first be addressed. Mr Benjamin Netanyahu, the Israeli prime minister and leader of the conservative Likud-led coalition government, has stated repeatedly in recent interviews that Palestinians cannot be trusted with these weapons which he said were used indiscriminately against Israeli troops, vindicating his own view that the peace

process must be anchored to the security of Israel. According to an opinion poll by Tel Aviv University, 42 per cent of Israelis still support the peace accords, the same percentage as in August. But the poll also shows that only 21 per cent now believe security is better compared with 46 per cent earlier. The poll is born out on the streets. Mr Chaim Malca, 41, a technician, doubts whether arming the Palestinians was right. "Look, maybe in retrospect it was a serious mistake. I am now more suspicious about the peace agreement. But what are we meant to do now? Stop the peace process? No. On the contrary. We have to speed it up as soon as possible, avoid any more rent-up frustrations among the Palestinians and set more guidelines for our own security. That's what I would tell Netanyahu," he said. Mr Malca voted for Likud, which leads the rightwing government which last May replaced the Labour government which signed the Interim Peace accord. Mr Yosef Shimon voted for Likud as well. "But I voted

for the peace process too," he said. "These peace negotiations will take a long time. Security just does not happen in the space of a few days," said the 50-year-old lawyer. "But I tell you one thing. I agree with Netanyahu. It is unacceptable that we negotiate under pressure from the barrel of a gun. I think Netanyahu should be given more time to prove himself. The outside world does not understand this," he added. But Ora, a 30-year-old mother of three, who declined to give her family name, believes there is no time to lose in the search for peace. Not only does she feel the Palestinians should remain armed. She also believes they are trying to combat terrorism on their own side for Israel's benefit. "I realise we should be more distrustful of the Palestinians' intentions. But we can't take the weapons away from them. If we do we will not advance the peace process," she said. "Both sides have to make concessions. And soon. I am prepared to give up territory but retain land which is

essential for guaranteeing our security. I just wish Netanyahu would come down from the heights. We all need peace. Arabs and Jews. And as soon as possible," she said. Peace for Mr Ephraim Meier, does not come through negotiations. Instead, it comes from heaven - and perhaps the gun. Mr Meier, 45, is an Orthodox Jew living in Bet-El, a settlement close to the West Bank town of Ramallah, scene of the worst clashes last week. "I feel vindicated by those events. The Arabs are trying to wage a religious war against the Jews," he said, adding that he had only disdain for Arabs, the peace process, and for Mr Shimon Peres, the former Labour prime minister and architect of the Oslo accord. He said he longed for the day when there would be another clash between Israelis and Palestinians - "so that Israelis can get the chance to kill even more Palestinians. And I will tell you something else. We, the 700 settler families are going to get more weapons to defend ourselves."

Advertisement for FT Business Travel Survey arriving Monday. Includes text: 'The Business Travel Survey will be published with the Financial Times on Monday, October 7. The 12 page survey examines direct booking as an alternative to using dedicated business travel agents...' and 'Financial Times World Business Newspaper'.



EU puts US 'bully' in the WTO dock

Guy de Jonquieres and Lionel Barber on Europe's frustration

Richard Holbrooke, the US diplomat who organised the Bosnia peace agreement, accused Europe earlier this year of sleeping through crises while America took charge. This week, the EU shook itself awake and resolved to stand up for its commercial and political interests.

Defying warnings from Washington, EU foreign ministers raised the stakes in the dispute over extra-territorial US trade legislation by agreeing to pursue in the World Trade Organisation their complaints against the Helms-Burton anti-Cuba law.

The decision followed an invitation by the Irish EU presidency to invite Mr Yasir Arafat, the Palestinian leader, to meet the ministers in Luxembourg on his way to the Middle East summit in Washington convened by Mr Bill Clinton, the US president.

Mr Arafat's flying visit resulted in a joint EU statement, which went further than Washington has done in criticising Israel for disproportionate use of force and flatly declared that east Jerusalem was not subject to Israeli sovereignty.

The unusual unity displayed by the 15 EU members challenges the conventional view they are incapable of conducting an effective foreign policy. The initiatives were inspired by the feeling that the US is trying to bully Europe over trade and is ignoring it in the Middle East peace process.

The vigour of the EU response is the more striking because the US has repeatedly exhorted it not to take the Helms-Burton law to the WTO, saying such action would enrage Congress in an election year and weaken public support for the multilateral trade system.

At first, EU foreign ministers seemed ready to heed these warnings, indicating last month that they would delay until after the election on November 6 planned retaliation against Helms-Burton and the D'Amato Act, which targets foreign investors in Iran and Libya.

But urged on by Sir Leon Brittan, the trade commissioner, who insisted Europe's political credibility was at stake, the ministers' patience snapped on Tuesday.

They agreed to ask for a WTO disputes panel to hear charges that Helms-Burton violates world trade rules.

"The US is always citing Congress as a reason for not doing things, but when did Washington ever pay attention to what our parliament thinks?" said one EU diplomat. "We cannot renounce our legal rights just because a defendant says it has domestic problems. Doing so would make a monkey of the WTO."

Stripped of the political Mexican Eizenstat plans new antidote to Cuba law mission

The Mexican Congress has approved a package of measures to prevent companies co-operating with the Helms-Burton law, writes Daniel Dombey in Mexico City.

The bill sets fines of up to \$150,000 for companies which provide information to US courts in cases brought under the Helms-Burton law. Companies can also be fined for failing to tell the Mexican government they are being targeted under the law.

If Mexican companies are successfully sued under Helms-Burton in the US, the bill allows them to counter-sue in Mexican courts.

Cemex, Mexico's leading cement company, pulled out of operations in Cuba after the law was passed.

Grupo Domos, a Mexican company which has interests in Cuba's telecommunications network, is one of the few companies worldwide which the US government has identified as breaking the law.

The Mexican 'antidote' to the Helms-Burton law commanded the support of the three main political parties in a House of Deputies vote.

Indonesia faces WTO battle on car policy

By Manuela Saragosa in Jakarta and Michiko Nakamoto in Tokyo

Indonesia faces an uphill battle defending its "national" car policy at the World Trade Organisation against complaints from the US and Japan that the policy breaches multilateral trade rules.

Japan's trade ministry said yesterday it would file its complaint within a week or so. Late on Tuesday the

US said it too was lodging a WTO complaint.

Both countries object to Indonesia's "national" car plan. Under this, a company owned by President Suharto's youngest son, Mr Hutomo Mandala Putra, has been awarded tax and tariff breaks to manufacture the "Timor" car in co-operation with South Korea's Kia Motors.

Indonesia argues that the policy is necessary to develop an indigenous motor

industry.

Japanese carmakers, which have a large share of the Indonesian market, say they have suffered a downturn in demand since the national car policy was announced. The Indonesian Timor cars are expected to cost about half the price of even low-cost Japanese cars sold in the region.

Many established investors, including Toyota, have invested heavily in Indonesian plants over the past

decade to meet local content requirements under an incentive scheme that provides tariff relief for producers who use Indonesian-made parts.

Mr Tunkyu Ardiwibowo, the trade and industry minister said yesterday that Indonesia was "ready" to deal with the complaints. "We want to develop our own national car and master automotive technology," he said.

US and Japanese parties

are expected to argue that the policy violates a WTO article which stipulates that imports cannot be treated differently from locally manufactured products.

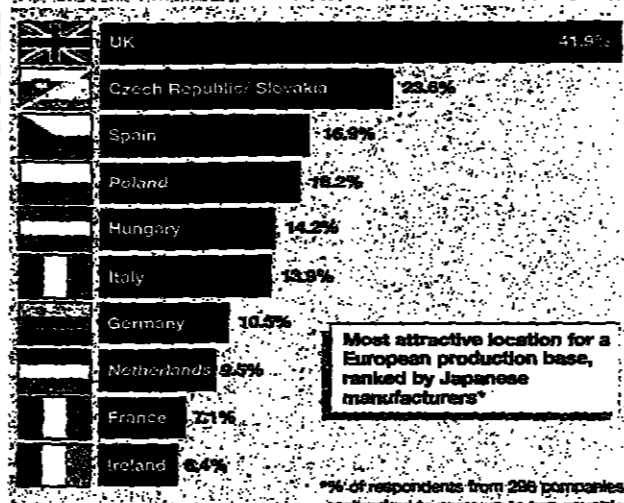
Mr Hutomo's company, Timor Putra Nasional, has no manufacturing facilities in place yet, and he has been allowed to import completely built-up "national" cars from South Korea tax and duty free until March next year. Thereafter the cars will be made in Indonesia.

The WTO will hold consultations with Indonesia. If the matter is not resolved within 60 days a WTO dispute panel will be set up.

Indonesia is expected to argue that because the bank guarantee Timor Putra Nasional secured for the first batch of 4,000 imported "Timor" cars are equal in value to the waived tariffs and luxury taxes, the imported cars are not being treated differently from locally produced models.

The WTO will hold consultations with Indonesia. If the matter is not resolved within 60 days a WTO dispute panel will be set up.

Europe's top ten attractions



Most attractive location for a European production base, ranked by Japanese manufacturers*

*% of respondents from 250 companies, each asked to name up to two countries.

Strong recovery seen in manufacturing subsidiaries in the region

Japan to invest more in Europe

By Guy de Jonquieres, World Trade Editor

Most Japanese manufacturing subsidiaries in Europe are set to resume making investments there after a strong recovery from a period of losses, according to a Japanese government survey.

But although the more than 400 Japanese subsidiaries surveyed were more bullish about business prospects in Europe, half said fiercer competition had recently eroded or elimi-

nated their commercial advantage over rivals.

Over three-quarters planned new investments in Europe this year and next. Most investments were to modernise or enlarge existing production facilities, not to build new plants or diversify into new businesses.

The survey, by the Japan External Trade Organisation, found strongly increased interest in eastern Europe. Although Britain remained Japanese companies' favourite location for a production base, the Czech

Republic, Slovakia, Poland and Hungary were ranked above most other western European countries.

Most Japanese subsidiaries foresaw growing business opportunities in central and eastern Europe as a result of closer relations between the region and the EU. But they also expected cheap products from the region to intensify competition in Europe.

Many subsidiaries said they had shifted parts and materials sourcing because of the appreciation of the yen. More than 90 per cent

had reduced imports from Japan, in favour of other parts of Asia, central and eastern Europe and north America. More than half the subsidiaries bought at least 70 per cent of parts and materials locally.

The investment recovery by Japanese subsidiaries follows improved operating performance in 1994. Two-thirds said profits were higher that year than in 1993. One-third said they were still in loss, compared with more than half in a similar survey a year earlier.

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A more productive way of working



GM Canada unlikely to avoid strike No survivors as Peruvian 757 crashes

By Bernard Simon
in Toronto

General Motors faces escalating strikes at its Canadian plants today, barring a last-minute breakthrough in contract talks with the Canadian Auto Workers union.

Should the work stoppages go ahead, they are likely to cripple GM operations throughout North America over the next week or two. The carmaker's Canadian

assembly and parts operations are closely integrated with their US counterparts thanks to free-trade agreements in automotive products stretching back to the mid-1960s.

The union had set a strike deadline of midnight last night. Negotiations with GM continued at a Toronto hotel yesterday.

However, Mr Buzz Hargrove, the CAW's president, told the union's 28,500 GM members late on Tues-

day night that "there's been so little progress that I can't see how we can avoid a strike".

The main sticking point is a demand by GM for greater flexibility in "outsourcing" work to outside suppliers, many of them non-unionised. GM Canada has given notice of plans to sell two parts plants and may shrink a third, which together employ almost a fifth of its workforce.

CAW negotiators want

GM to follow the pattern set by a three-year contract negotiated last month with Chrysler's Canadian subsidiary. Chrysler agreed to replace any jobs lost to outsourcing at its Canadian plants, provided it was making a profit.

However, GM has made less progress in sourcing components from outside suppliers, and has said that it needs more flexibility than Chrysler to remain competitive.

Barring a last-minute settlement, the CAW plans to begin the strikes today at GM Canada's flagship plant in Oshawa, east of Toronto, and a smaller assembly line at Ste-Thérèse, Quebec.

The Oshawa plant produces Buick Regal, Chevrolet Lumina and Monte Carlo models, as well as pick-ups. It also manufactures numerous components, including batteries and instrument clusters.

The stoppages would be extended to other GM plants within a week, including a V6 and V8 engine factory in St Catharines, Ontario, and parts plants in Windsor, Ontario.

GM produced 908,000 vehicles in Canada last year, or about 17 per cent of its total North American output. It has been attracted to Canada by relatively low labour costs, thanks mainly to a government-financed health care system.

A Peruvian passenger jet carrying 70 people bound for Chile crashed into the Pacific Ocean early yesterday after the pilot reported a mechanical failure. No survivors had been found by yesterday afternoon, AP reports from Ancon, Peru.

Patrol boats moving through thick fog found the wreckage 66 km west of the beach resort of Ancon, said Admiral Jaime Monge, head of navy rescue operations. Ancon is (50 km) north of Lima. The fuselage had split in half and there were no immediate signs of survivors.

Aeroperu Flight 608, a Boeing 757, was en route to Santiago when it crashed. The airline said in a statement. The aircraft left Lima at 12:42 am and the pilot reported mechanical failure about five minutes later, the statement said. All contact was lost at 1:10 am.

The Transportation Minister, Ms Elsa Carrera, said that she had heard a tape of a conversation between the pilot, Erick Schreiber, and the Lima control tower and that it indicated the aircraft's navigational system failed.

She quoted the pilot as saying: "What's happening. What altitude am I at? Why is my ground crash alarm on? Am I over land or sea?" She said the tower told

him he was over the ocean, and he then asked for an aircraft to guide him home to the airport. The pilot was told one would arrive in 15 minutes. The tower then lost contact with the aircraft, Ms Carrera said.

Aeroperu officials listed 30 victims from Chile, 20 from Peru, including the nine-man crew, six from Mexico, four from the US, two from Italy, two from Britain, two from Ecuador, and one each from New Zealand, Spain, Colombia and Venezuela.

A Boeing 727 carried the passengers on the first leg of the flight from Miami after a 757 there developed mechanical problems, said Mr Raul Chiappo, the airline's operations manager for Miami. The 727 had been flown to Miami from Peru, he said.

Mr Chiappo said 20 people aboard during the crash had boarded the flight in Miami. One had switched from a flight from New York.

The waters in the crash area are in the cold Humboldt current that flows up the South American coast from Antarctica.

Aeroperu was owned by the Peruvian government until it was purchased by Aerovias de Mexico three years ago.

Its operations are based in Lima.

OBITUARY: ROBERT BOURASSA

A strong defender of federalism



Bourassa: fought split

Mr Robert Bourassa, Liberal premier of Quebec from 1970 to 1976 and 1985 to 1994, died yesterday in a Montreal hospital after a long struggle with cancer. He was 63.

With his death Canada loses a strong defender of federalism. Mr Bourassa always believed Canada needed its French-speaking province, biggest in population after Ontario, and that Quebec could best pursue its destiny within Canada.

"Canada could not survive if split into two distant

parts with an independent Quebec in between," he often said. "Quebec would be isolated. Most Quebecers don't want the destruction of Canada."

He became premier at 36 and was immediately plunged into the October 1970 terrorist crisis when the British diplomat Mr James Cross and the Quebec Labor Minister, Pierre Laporte, were kidnapped. Mr Cross was freed but Mr Laporte was killed.

Although the economy

prospered in the next few years he lost power in 1976 to the separatist Parti Québécois - which exploited Quebecers' fears for the French language.

Mr Bourassa, trained as a lawyer and economist, went into exile, lecturing on federal systems in Europe and writing extensively. He returned to power in 1985 with a huge majority, promising to improve the economy and ensure social peace.

His great disappointment

was the 1990 rejection of the Meech Lake constitutional accord which would have recognised Quebec as a distinct society and loosened some federal powers.

"I had five very reasonable proposals and they were accepted by eight provinces representing 95 per cent of Canada's population," he said afterwards.

Mr Bourassa worked to contain the nationalist backlash as well as easing the French-only rules for commercial signs.

His skin cancer became known in 1993 and he resigned as premier in 1994. His successor, Mr Daniel Johnson, lost the 1994 election to the Parti Québécois - which narrowly lost the 1995 referendum on independence.

Mr Bourassa, who often withstood aggressive attacks by union leaders, was determined to keep Quebec in the mainstream, economically and culturally.

Robert Gibbens



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AMERICAN NEWS DIGEST

Perry calls for anthrax vaccines

The US defence secretary, Mr William Perry, is considering a plan to vaccinate the 1.5m members of the active-duty military against the biological warfare agent anthrax, senior officials said yesterday. Though final approval could be weeks away, the momentum for the anthrax vaccinations got a major boost when the Joint Chiefs of Staff recommended that planning for the \$120m programme proceed, a Pentagon spokesman said.

Troops deployed to Korea and the Gulf - considered the highest risk regions for biological warfare - would be first to receive the six inoculations over 18 months, the spokesman said. Service members within 35 days of going to those areas would be next on the priority list.

The programme marks a reversal of policy among senior commanders, who have worried that the vaccine was costly, not needed and might have worrisome side effects. AP, Washington

US construction up 0.9%

Spending on construction in the US rebounded in August from a July drop, the Commerce Department said yesterday, largely because of a jump in privately financed business building.

Total construction was up 0.9 per cent to a seasonally adjusted annual rate of \$562.1bn in August after falling a revised 1.1 per cent in July. Previously, the department said July spending was down more sharply, by 1.4 per cent.

All the gain in August construction spending occurred in the private sector, where outlays increased 1.3 per cent to a rate of \$423.4bn following a 1.2 per cent decline in July.

By contrast, public, or taxpayer-financed, building projects posted a 0.2 per cent spending decrease in August after declines of 0.7 per cent in July and 0.5 per cent in June. Reuter, Washington

Bank of Canada cuts rate

The Bank of Canada yesterday cut short-term interest rates for the eighth time this year, lowering its key bank rate by 25 basis points to 4 per cent.

The move by the central bank prompted Canada's major chartered banks to lower their prime lending rates to 5.5 per cent from 5.75 per cent. Prime rates are now at their lowest level since February 1994.

It was the seventh time this year the bank has cut rates independent of an easing by the US Federal Reserve. The Fed's discount rate, at which the central bank lends funds to banking institutions, is at 5.0 per cent. The Bank of Canada said yesterday that the move was consistent with a recent appreciation in the Canadian dollar and declines in money-market interest rates. Reuter, Ottawa

Brazilians go to the polls

Brazilians vote today in municipal elections to choose more than 5,000 mayors after a two-month campaign that has dominated national politics.

Mayors of Brazil's big cities occupy some of the most powerful political posts in the country and some 125 federal deputies and senators are running for local office. Congress has come to a near standstill as legislators and some ministers have abandoned Brasilia to campaign for party colleagues.

Supporters of President Fernando Henrique Cardoso hope a good showing for candidates of his centrist-PSDB and its congressional allies, the right-of-centre PFL, will strengthen the government's hand at national level. This would help Mr Cardoso's efforts to change the constitution to allow him to run for a second term in office in 1998.

He needs the support of two-thirds of congressmen to do so; a vote on the issue is expected early next year. Jonathan Wheatley, Sao Paulo

US joins drugs fight

The US announced yesterday that it would send \$75m in military aid to Colombia, Peru, Venezuela and seven Caribbean islands to help them fight drug trafficking. On September 24, President Bill Clinton told the UN General Assembly that he would make available \$100m in military aid to help South America and the Caribbean region stamp out the drug trade at its source. These \$75m are apparently part of that aid package. The seven islands, which belong to the Eastern Caribbean Regional Security System, are Antigua and Barbuda, Barbados, Dominica, Grenada, St. Kitts and Nevis, and the Grenadines. AFP, Washington

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N Korea warns over troops' death

By John Burton in Seoul

North Korea yesterday threatened "serious consequences" in retaliation for the death of 22 North Korean soldiers who landed in South Korea after their submarine went aground two weeks ago.

South Korean waters because of an engine problem, but the UN Command said the intrusion had been a "serious and deliberate violation" of the armistice agreement that ended the 1960-83 Korean war.

Meanwhile, officials in Seoul were speculating whether North Korea had already begun taking revenge after a South Korean diplomat was murdered on Tuesday night in the Russian far east port of Vladivostok.

Mr Lee Yang-ho, defence minister, warned North Korea might be preparing to launch a limited war against South Korea. Other officials have suggested North Korea might be trying to exploit the submarine incident and future military actions in its campaign to achieve a peace treaty with the US.

Kashmiri party in sweeping victory

By Lisa Vaughan in New Delhi

The pro-Indian National Conference party won an emphatic victory in the first local elections in the troubled Himalayan state of Jammu and Kashmir since the outbreak of a separatist rebellion in 1990 and immediately raised the prospect of autonomy.

"Autonomy is needed to give a healing touch to the longstanding grievances of the people of the state," said Mr Farooq Abdullah, leader of the moderate National Conference party.

The party won 52 seats in the state's 87-member assembly, election officials said. It trounced the Congress party and the Hindu nationalist Bharatiya Janata party, which took seven seats each.

Mr Abdullah will be returned as Kashmir's chief minister after being ousted from the post six years ago for failing to quell the incipient Muslim separatist uprising.

India's constitution originally gave Kashmiris nominal control over most of their affairs, but New Delhi has gradually eroded these powers since 1952. The National Conference wants to recapture some of them to help subside the separatist movement.

Mr Abdullah, who escaped two grenade attacks during the polls, said the new state government would set up a committee to examine the issue of autonomy and report within one year.

ASIA-PACIFIC NEWS DIGEST

Malaysia signs dam contract

Malaysia signed a long-delayed contract with a consortium led by Swiss-based ABB electrical engineering group yesterday to build south-east Asia's biggest dam, ending months of discord between the companies taking part in the controversial project.

ABB's main partner is Brazil's Companhia Brasileira de Projectos e Obras. The 2,400MW dam project, supported ardently by Dr Mahathir, means clearing of 69,000 hectares of rainforest and the resettlement of 9,400 tribal residents.

Japan's newest political party has become its third most popular within days of formation, just over two weeks before a general election on October 30. The Democratic party, formed last weekend by defectors from the mainstream parties under Mr Yukio Hatoyama, scion of one of Japan's richest and most powerful political families, and Mr Naoto Kan, the health minister, yesterday won just over 12 per cent support in a poll of 3,000 voters by Kyodo news agency.

That leaves it only just behind the largest opposition group, the centre-right New Frontier party, with nearly 13 per cent. The ruling Liberal Democratic party, however, has enlarged its lead with 38.5 per cent support, up 3.5 percentage points from the most recent Kyodo poll in July.

Mongolian accounting rules

Mongolia is to introduce accounting standards in line with those being developed for the world's leading stock markets. A common code would be drawn up, a Moscow meeting of the Commonwealth of Independent States agreed recently. The Organisation for Economic Co-operation and Development says the "long-term undertaking" would involve International Accounting Standards Committee - the body leading efforts to write a set of core standards acceptable to world stock markets.

The decision to seek the co-operation of the IASC follows its breakthrough agreement with Isco - the organisation representing the world's main securities regulators. Initial drafts of the framework and presentational standard will be reviewed in early 1997 before the annual meeting of the co-ordinating body - the Co-ordinating Council on Accounting Methodology in the CIS - in Moldova.

Indian petrol hoax revealed

The recipe behind herbal petrol which baffled India's scientific establishment has been revealed as a hoax. The experiment, which involved boiling a herb in water, depended on the "inventor" using a hollow stirrer filled with petrol. Mr Ramar Fillai, a 30-year-old school dropout, had the public clamouring for the cheap petrol.

Malaysia sees Islamic banking boom

It may seem ironic that many of the best customers in Malaysia's Islamic finance boom are not Muslims. But behind the irony is an insight into the country's emerging status as a centre for Islamic stockbroking, banking and finance by stretching Muslim definitions. Malaysia's financial architects have designed Islamic instruments that are in some cases more attractive than their conventional counterparts.

"Most of the demand for our Islamic housing loans have come from the Chinese [minority]," said one local banker with a rueful smile. "If I am not mistaken, they are mostly Buddhist, or Christian," he added.

Islam prohibits giving or taking interest, discounting the face value of a currency, or any involvement with gambling, drinking alcohol, eating pork, prostitution and other proscribed activities. In much of the Islamic world, these restrictions have complicated the development of a vibrant financial system.

Malaysia, where just over half the population are Muslims, is striving to lead the world in developing sophisticated Islamic financial services. Backed by the nation's leaders, the drive is aimed at making the country a conduit for Middle Eastern and other Islamic investments in the Asian region. To a lesser extent, it is also hoped that the business contacts derived from handling

Malaysia's conduit for Islamic investment

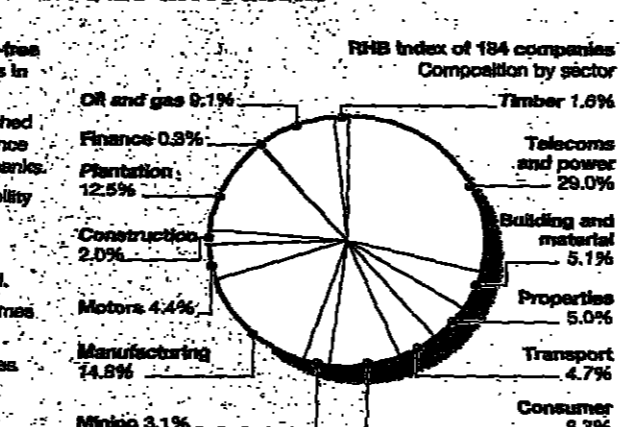
- Government opens up interest-free banking for conventional banks in 1993, since then:
- Islamic-free operations established by 24 commercial banks, 19 finance companies and three merchant banks.
- Central bank announces availability of 20 Islamic financial products.
- Six Islamic unit trusts set up.
- Islamic brokerage house formed.
- Two Islamic stock broking schemes offered by a conventional house.
- Two Islamic insurance companies, eight operations.
- One wholly Islamic bank set up.

Islamic funds will facilitate Malaysian investments in and around the Middle East, observers said.

The rewards could be great: about one fifth of the world's population are Muslims and the Middle East is one of the world's biggest repositories of uninvested cash.

Mr Afifudin Omar, Malaysia's deputy finance minister, said recently that since laws were changed in 1993, 23 commercial banks, 19 finance companies and three merchant banks have started Islamic operations in Malaysia. Deposits in Islamic non-interest accounts were M\$6.1bn (\$2.43bn) at the end of June this year, nearly 2 per cent of total bank deposits.

Malaysia has also developed active markets for cen-



tral bank bills, treasury bills, corporate notes and other instruments designed along Islamic lines. The local Arab Malaysian Bank has begun an aggressive marketing push for the country's first Islamic Visa card.

Both Abrar and Rashid Hussain are now looking to set up unit trusts for Islamic-approved (halal) companies throughout Asia. Mr Amin Rafie Othman, senior general manager at Rashid Hussain, said Indonesia - with an estimated 160m Muslims - has most potential for Islamic stockbroking.

There are problems. One is

are from overseas. In lieu of a commission, Abrar takes 20 per cent of the profits from a client's investment.

Another brokerage, Rashid Hussain Asset Management, launched in May the country's first index of stocks checked for conformity to shariah (Islamic) principles. Composed of 184 counters, the Rashid Hussain Barhad (RHB) index has tracked the market's broadest index, Kmsa, with few deviations.

There are problems. One is

James Kynge



Probably the best beer in the world.

Air traffic control sell-off may be revived

By George Parker and Michael Shepperson in London

Sir George Young, the transport secretary, is resisting a Treasury proposal to revive plans to privatise the air traffic control service before the general election.

Sir George has warned ministers that the sale would be controversial and complicated, and might prove difficult to push through parliament in the remaining months before an election.

Mr Kenneth Clarke, the chancellor,

is searching for ways of raising revenue before the Budget next month and believes the sale of National Air Traffic Services, a subsidiary of the Civil Aviation Authority, could raise at least £600m (£600m).

The sale was dropped last year in the face of opposition from airlines and MPs on the House of Commons transport select committee. It emerged yesterday that the Royal Air Force, which shares Nats' facilities, is also strongly opposed to the privatisation.

The Department of Transport is considering details of a possible sale, and Sir George is said to be prepared to support it if there is an overriding political imperative to raise cash for the Treasury.

The matter will be discussed in the near future at cabinet committee level, where Sir George will point out the political and practical problems of pushing ahead.

Yesterday Mr Andrew Smith, transport spokesman of the opposition Labour party, said Labour would fiercely oppose privatisation.

Mr Smith said: "Our air is not for sale."

He added that privatisation would threaten plans to build a £200m air traffic control centre at Prestwick, near Glasgow in Scotland. The CAA is reviewing plans to build the centre, which would be funded by the government's private finance initiative.

If the Scottish centre were abandoned, all air traffic in the UK and across the Atlantic would be handled by the CAA's new centre at Swanwick, near Portsmouth in southern England, which is expected to open at the end of next year.

The CAA said yesterday its review would take several more weeks.

Mr Smith also called for the proposed alliance between British Airways and American Airlines to be referred to the UK competition authorities. The call came shortly after Mr Ian Lang, trade and industry secretary, received an Office of Fair Trading report on the proposed tie-up.

UK NEWS DIGEST

MPs defend receipt of cash

The main opposition Labour party yesterday stepped up demands for an inquiry into the funding of political parties, as Members of Parliament defended their decision to accept payments from Mr Ian Greer, the political lobbyist, to fund their election campaigns.

The constituency parties of at least 24 past and present MPs accepted payments of between £500 (£780) and £5,000 (£7,800) from Mr Greer. Both the lobbyist and the recipients argued yesterday they had done nothing wrong. The revelations prompted Mr John Prescott, Labour's deputy leader, to repeat demands that Lord Nolan's committee on standards in public life should examine the issue of party funding. A number of MPs appeared on radio and television to explain that the money was paid towards election expenses and they did not receive the money personally.

The Conservative party has been badly hit by the latest wave of "sleaze" allegations, which were triggered by the collapse of the libel action brought by Mr Neil Hamilton MP against the Guardian newspaper, over allegations that he received cash from Mr Mohamed Fayed, owner of the Harrods store in London, for asking questions in the House of Commons.

George Parker
Editorial comment, Page 13

HIGH COURT

Millionaire twins in privacy claim

Mr David and Mr Frederick Barclay, the multi-millionaire property and media investors, yesterday launched a High Court challenge to Britain's privacy laws.

The twin brothers, who live in a recently built £40m (£62m) castle on Breckhou, their Channel island just off the coast of Sark, which is one of the islands between Britain and France, claim their privacy was invaded by a BBC television reporter in 1996 after they had refused an interview. Judgment was reserved until a later date.

Robert Rice

CHANNEL TUNNEL

Tourist numbers on the increase

The Channel tunnel between England and France contributed to a 20 per cent increase in the number of continental Europeans visiting the UK in the seven months to the end of July, compared with the same period last year, according to Ms Virginia Bottomley, the national heritage secretary, yesterday.

Britain was on track to beat last year's record 23.7m tourists, she said. More than 14.7m overseas visitors came to the UK in the year to the end of July and spent \$6.8bn (\$10.6bn).

Scheherazade Daneshkhu,
Eurotunnel, Page 17

ENVIRONMENT

Newspaper industry targeted

Mr John Gummer, the environment secretary, yesterday singled out the newspaper industry as the next target for his efforts to promote more recycling following this week's launch of a landfill tax. He told the Financial Times that he aimed to secure, by the end of this year, an agreement with publishers and paper makers setting targets for the use of recycled newspaper. Mr Gummer earlier told a gathering of the nation's waste disposal contractors that the landfill levy, Britain's first environmental tax, was part of a wider strategy.

Leyla Boulton

WORKFORCE SURVEY

Low benefits costs help hoteliers

Britain's low social security costs give its hoteliers a huge advantage over other European countries, according to a survey of hotel labour costs shortly to be published by Horwath International, the hotel consultants.

Room service

	Payroll cost	Related expenses	Total
Spain	£7.2	£2.0	£9.2
Germany	£8.5	£1.5	£10.0
France	£9.5	£1.5	£11.0
UK	£2.5	£0.5	£3.0

Source: Horwath International

Labour costs include wages and related expenses, such as staff meals, accommodation and staff uniforms. But social security costs are by far the largest payroll-related expense, according to Mr Jonathan Bodiender, chairman of Horwath Consulting, Europe. The cost in the UK of wages and related expenses amounted to 28.4 per cent of hotel revenue last year, according to the survey, well below the high of 43.4 per cent in Austria and 42.1 per cent in France.

Scheherazade Daneshkhu

OFFICIAL RESERVES

Figures fall by underlying \$113m

The government's official reserves of gold and foreign currency fell by an underlying \$113m in September, according to figures released yesterday by the Treasury. The overall level of official reserves fell \$3.9bn, the biggest headline fall since January. But this was exaggerated by repayments of a government floating rate note, which came to \$3.9bn.

Graham Bowley

Arts chief warns on £3m cut in funding

By Antony Thorncroft in London

National Lottery funding for the arts may arrive too late to offset the crises created by continuing cuts in the Arts Council's annual grant, Lord Gowrie, chairman of the Arts Council of England, warned yesterday.

He was launching the Arts Council's annual report for 1995-96, but his concern focused on the size of the annual grant for the arts for 1997-98, which will be announced next month. The Council has been told by the government to expect a cut of £3.2m (£4.9m). This year's grant totalled £186m.

Further £250m a year to be spent on capital projects, should not affect the annual funding of the arts, which covers running costs. In practice, the Treasury is attempting to reduce the size of the annual grant. Since 1994 it has been cut by £17m in real terms.

"The Treasury is the Ministry of No," said Lord Gowrie, who is a former Treasury minister. "I don't expect large injections of cash from the Treasury. If they keep us on standstill funding, the arts can manage until the fruits of the lottery come on stream. It is a question of getting from here to there."

level of artistic activity in the country is already decreasing. This will lead to smaller audiences and even lower income," she said.

Touring companies, such as Welsh National Opera and Ballet Rambert, are reducing their seasons; art galleries, such as the Serpentine, in London's Hyde Park, must now look to commercial sponsors - not just to cover the extra costs of mounting exhibitions but to pay staff. After rising by 34 per cent between 1981-91, the number of people employed in the arts is falling. Most of the leading arts companies, have substantial debts.



Lord Gowrie, a former government minister, said the Treasury was "the Ministry of No"

"This would create a very, very, serious situation," said Lord Gowrie. In theory, the arrival of lottery money for the arts, which provides the Arts Lottery Board with a

Ms Mary Allen, secretary general of the Arts Council, is even more pessimistic. She fears that the cut in the 1997-98 grant could be even greater than projected. "The

although the Arts Lottery Board has announced grants totalling £450m to almost 500 arts organisations, less than £25m has actually been

handed over. The Council has persuaded Mrs Virginia Bottomley, the heritage minister, to widen the scope of lottery funding to cover the

commissioning of new art works and the widening of the audience, but in the short term arts funding is being severely squeezed.

Monks says Labour must take lead on membership of Emu

By Robert Taylor, in Blackpool

A Labour government should take the UK into the "first wave" of any future European single currency, Mr John Monks, the general secretary of the Trades Union Congress, said yesterday at a meeting on the fringe of the main opposition Labour party conference. He added that the trade unions should "help a Labour government with the historic decision it must make early in its life".

"The choice is to go in the first wave or wait," said Mr Monks. "On balance we say [to a Labour government] go for it. Avoid a later negotiation to try and get into a scheme which is already up

and running. Recognise a future devaluation of sterling against a single currency is likely to attract a surcharge on British exports to the single market and accept there is no alternative to a UK economy competitive on quality."

Mr Monks added that the unions must play "a positive part in helping the UK to find its true, central role in the development of the European Union instead of continually, ineffectively sitting in the brake van."

"We would ideally like to have made different decisions, made them later and against different criteria. But that is not the choice."

The TUC general secretary's remarks contrast with party leader Mr Tony Blair's

caution on the Emu issue and the view of Labour shadow foreign secretary Mr Robin Cook, who wants to see the EU develop convergence criteria on employment before going ahead with a single currency.

Mr Monks also emphasised yesterday that the trade unions were ready to develop a new relationship with a Labour government based on "mutual respect".

"Unions are independent bodies with their own agenda set by the needs and problems of their memberships," he said. "That is why our relationship with a good government should be the same as we try to build with the good employer - that of partnership."

The TUC general secretary

said there could "be no question" of trade unions "simply saying because some business people have had their backs scratched completely unjustifiably in recent years we can expect similar treatment. But if we should not expect our backs to be scratched, neither should we roll over to have our tummies tickled."

Mr Monks said the unions must show they could play a "positive, practical part in solving Britain's problems" by helping to develop high-quality, well-regarded public services and "in avoiding unnecessary disputes".

"What new unionism seeks to do is to build a determination to help make union Britain so successful everyone wants to join."

Blair wins fight over pensions

By James Blitz

Mr Tony Blair, the Labour leader, last night crossed the one serious political hurdle he has faced at this year's party conference when delegates voted down a motion calling for rises in the value of state pensions.

After weeks of uncertainty over how the big unions and constituency delegates would vote on the issue, the conference comfortably defeated a motion calling for state pensions to be annually uprated against earnings rather than prices.

Yesterday's victory came after the only genuine policy debate at this year's conference. Its highlight was a powerful and biting speech by Baroness Castle, the former cabinet minister, who has campaigned passionately for pension increases.

Full details of how votes were cast will become available today. But the GMB general union is thought to have been one of the few to cast its block vote in favour of the earnings link. Calls to overturn the motion are thought to have gained strong support from constituency representatives.

The leadership's victory reinforced the strong message sent out earlier in the week by Mr Gordon Brown, shadow chancellor, that Labour is committed to tight control of fiscal spending.

Mr Brown had expressed concern that restoration of the earnings link would have cost billions of pounds.

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Trade unions still force to be reckoned with

'Old Labour' shows loyalty by throwing weight behind party leader to save pensions issue

There was more than a touch of Old Labour on display at the party conference yesterday, as trade unions threw their still weighty votes behind party leader Mr Tony Blair's efforts to defend the pension issue.

With still half the voting strength in Labour's governing body, the unions remain a force to be reckoned with.

The constituency parties may account for the rest of the conference vote but as the pension debate indicated, they are less susceptible to the leadership's demand for loyalty than the much-derided trade union barons.

"At the last moment, when Tony Blair realised he faced trouble over pensions because the constituency delegates were unreliable, his advisers turned to us to help him

out," said a senior union leader yesterday. "It was very much a case of Old Labour riding to the rescue, very much like old times."

In the debate, a number of prominent union leaders loyal backed the leadership from the rostrum. In the past the trade unions held 90 per cent of the conference vote. But now they have less power it may prove more difficult for Mr Blair to win every issue.

Yesterday's stirring events do not signify any return to the close, usually friendly alliance between the party and the trade unions that existed most of the time before Mr Blair was elected leader.

He may have said friendly words about revised union figures to the conference on Tuesday, but Mr Blair's only explicit reference to trade unions was to their 19th cen-

tury past when they "began as an instrument against abuse in the workplace".

Relations between Mr Blair and the senior union leaders remain cool and formal and they seem likely to stay that way. But, at least until after the general election, an uneasy truce appears to have been signed.

Despite serious misgivings, most unions continue to express loyalty and this week in Blackpool they have gone out of their way to reassure and act as a force for stability. "They may no longer be a praetorian guard for the Labour leadership but they are still ready to act as faithful supporters."

However, privately union leaders are already discussing how the future relationship with Labour will develop. Few want a complete

breaking of the historic links. They fear the Americanisation of Labour, where the party could become dependent on wealthy supporters. The £9m (£9.36m) a year provided by the unions for the party's finances remains vital.

But most union leaders also accept it would be futile to pursue an option of fighting a rearguard action against further attempts to weaken the party-union relationship. Nor do they really want to adopt a confrontational approach.

In spite of the pain, they are rethinking how the alliance should evolve in a rational way. The high emotions aroused by the Blair-inspired hints around the recent Trades Union Congress that the leader wanted to end the party's link have calmed. But the problem for the unions is how their ties

with Labour can be further loosened without recrimination.

There is talk of downgrading the party conference and reducing trade union representation on the national executive committee. More important will be what kind of relationship the two sides envisage if and when Mr Blair walks through the door of No 10 Downing Street.

Yesterday in Blackpool, Mr John Monks, the TUC general secretary, called for a partnership with Labour based on "mutual respect". But even such a relationship, though a far cry from the social contract of the 1970s, is by no means guaranteed under New Labour and the union leaders know it.

Robert Taylor

Union negotiates massive increases with private rail operators

'Dream' deals for train drivers

By Robert Taylor, Employment Editor

Aslef, the train drivers' union, is quietly negotiating the kind of wage deals for its members in privatised railway operating companies that it could only dream about when the national network was state-owned.

Wage restructuring has produced massive increases in guaranteed weekly earnings for drivers, as supplements and overtime payments are consolidated into what were once low basic wage rates. Pay levels of £11,800 (£18,406) a year under British Rail have jumped to between £22,000 and £28,000.

So far, pay settlements have been signed with Eurostar; East Coast mainline; Great Western; Central Railways; and Freight Liners.

The deals have also produced commitments to cut

the working week to 37 hours, holidays of five and six weeks compared with the original basic four weeks and three days, and more flexible and longer rest periods.

In return, Aslef has agreed to changes in working practices, the end of overtime working and improvements in productivity. But the union has also insisted there should be no compulsory redundancies.

"We are pragmatists," said Mr Lew Adams, Aslef general secretary, yesterday. "The union recognised the fragmentation of the railway industry has ensured none of the companies have a pool of drivers available to them in the case of a threat of industrial conflict."

Freed from the constraints of a state-run railway, the union can bargain freely with individual companies

and maximise their strength by setting benchmark deals and then pressing them on everybody else.

"In the past, British Rail used to insist on the lowest common denominator when it negotiated with us to ensure any deal could cover all the drivers in different circumstances," said Mr Adams. In 1991, Aslef tried to negotiate a comprehensive deal with BR but failed to find much interest in a management hemmed in by government-imposed financial constraints.

But Mr Adams insists: "We are not going to abuse the new strength we have. We are insisting on fair and reasonable terms with the companies. Our aim is to provide a good service to the travelling public and allow the operating companies to function profitably."

So far, referendum ballots

have produced huge majorities in favour of the negotiated deals.

But RMT transport union officials express private doubts about Aslef's position. They believe Mr Adams and his executive are keen to strike deals with private operators that they are unwilling to fight changes.

He responds to such suggestions with a wry smile. His union refused to back a militant motion at the Labour conference yesterday calling for the return of the entire railway industry to state ownership. "We would have preferred to see railways remain in the state sector but we will not desert our members," said Mr Adams. "It was John Prescott - deputy leader of the opposition Labour party - who pressed for public-private partnerships on the railways. We favour this too."

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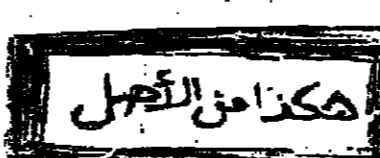
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UK NEWS : TEXTILES INDUSTRY

As campaigners step up pressure on UK retail groups to ensure that overseas suppliers meet basic workplace standards, Jenny Luesby and William Lewis report that rising concern about ethical issues

could cause a shake-up in the UK's own clothing manufacturing sector. In Birmingham, thousands of workers suffer pay and conditions not normally associated with a developed economy. The factories are squalid.

Workers earn less than £2 an hour for a 50-hour week. Yet some of the UK's best-known high-street retail chains buy clothes from these manufacturers, even though they appear to break their own guidelines.

Rag trade probes work practices



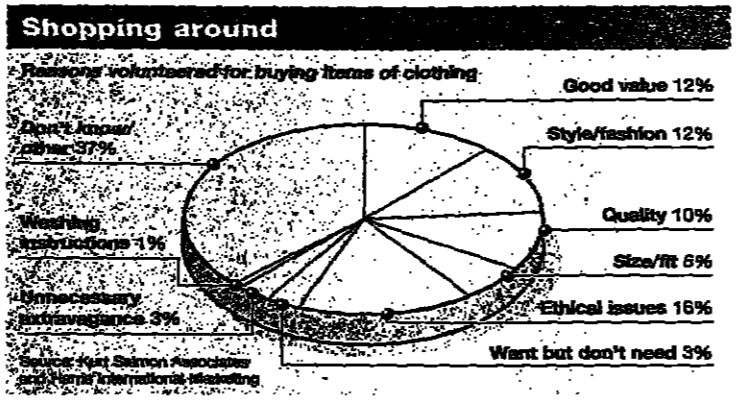
Six of the UK's best-known retail groups have pledged to investigate working conditions and pay for staff at Birmingham companies which manufacture clothes for them. C&A, the Dutch retail group, Next, John Lewis, Great Universal Stores, Maccays, a Scottish retail chain, and Primark, a division of Associated British Foods, all said this week that they would be looking into employees' claims about low pay and poor work conditions.

represented a fire risk. However, the auditors were told workers were being paid between £2.72 and £3.60 an hour, which the retail group says it regards as "satisfactory". C&A says it requires suppliers to pay wages in line with local norms and to have due regard for health and safety. Workers from the companies visited by the FT claim they are being paid between £1 and £3 an hour, compared with average hourly earnings for female manual clothing industry workers in the UK of more than £4 an hour.

In May, Oxfam launched a public campaign calling on high-street retailers to ensure minimum workplace standards among their suppliers. The charity targeted C&A, Burton, Marks and Spencer, Next and Sears, all of which have subsequently received thousands of letters from consumers. "C&A has taken the lead in publicly committing to do something about these abuses," says Oxfam. Next and Sears have also now pledged to act to improve conditions. The companies admit that pressure from campaigning groups has forced them to re-examine their policies.

Similar campaigns in the US have prompted companies such as Levi Strauss and The Gap to make sweeping changes to their manufacturing practices. Disney, the merchandising brand for Walt Disney, is currently facing a wave of criticism for its use of low-paid labour outside the US. The impact is likely to be no less significant in the UK. In a recent joint study, Kurt Salmon and Harris International Marketing found consumers ranked ethical issues with value for money when buying clothes. Labour conditions were identified as the top ethical issue for the sector. However, while consumer concern has focused on production in developing countries, moves by retailers to monitor suppliers could affect hundreds of small UK manufacturers.

The C&A code published in May includes requirements that: Suppliers must ensure all manufacturing processes are carried out with "proper and adequate regard for the health and safety of those involved"; Wages and benefits must be fully comparable with local norms, must comply with local laws and "must conform with the general principle of fair and honest dealings"; C&A says it asks suppliers to disclose "all facts and circumstances concerning production, use of sub-contractors and the use of other third parties". It makes potential suppliers accept the code as a contractual obligation before buying mar-



Surjit Doal, owner of Stanley Fashions, describes competitors who cannot make margins of between 25% and 30% as "idiots"

THE MANUFACTURERS

Competition is blamed for sweated labour

Mr Arvinder Sekhon is managing director of a company that cuts, makes and trims blouses. He supplies clothing, usually through wholesalers, to Primark, Great Universal Stores and other high-street retailers.

Mr Sekhon's staff say they earn about £80 for a 50-hour week. For some, the absence of payslips or P60s means they are not officially recognised as employees. They describe their working conditions as appalling and say their factory is rat-infested.

Mr Sekhon's company is not alone. Managers of seven clothing companies in Birmingham also confirmed long hours and low rates of pay. Working conditions were, in some cases, even worse than at Mr Sekhon's company, yet all supply well-known shops, including one with a code of conduct which should prevent it from dealing with such companies.

Mr Sekhon and managers of the other manufacturers blame intensive competition in the industry for the poor pay and conditions. Standing on the shop floor of a run-down industrial unit in Handsworth, Mr Sekhon holds up a blouse and says he was offered £1.50 to make it. "Everybody is undercutting. The wholesaler comes to us and says: 'If you do not want to do it at that price, it is going out of the country'."

Mr Sekhon's company does not design the clothes which it manufactures and passes on to a wholesaler. His aim is to secure a 10 per cent profit margin by converting rolls of fabric into finished goods.

Mr Sekhon's customers are concerned with the quality of clothing, not working conditions, says Mr Tony Burdett, general manager. "They are not interested and not involved at all with what we pay our employees."

Health rules flouted as city puts jobs first



Employment regulations are being widely flouted in Birmingham's clothing industry as officials, aware of employment created in the sector, hesitate to act. While city council and Department of Trade and Industry projects seek to keep the industry going, legislation on pay and working conditions is going unenforced.

"Companies are required to give notification of their occupation. Once they are known to us, there is a system of rating, based on historical experience, which determines how often we go into the field. 'I could not even begin to guess how many we do not know about. If they do not notify, we have to rely on other sources.' He cannot say whether the 319 companies found by the council in inner Birmingham have been visited by the HSE.

At the level of corporate law, the sector is similar to the building trade, marked out by frequent liquidations and multiple corporate identities. "Typically, textile companies come and go very quickly," says Mr Walker. "Even if we do know about them, they may disappear. It is a very difficult sector to keep track of."

Mrs Bassati says the relaxation of regulations has affected all statutory rights, including wage slips, contracts of employment, redundancy, notice and maternity leave, as well as general conditions, such as low pay, long hours and hygiene. On the health side, the Health and Safety Executive employs just two inspectors to monitor the West Midlands' textiles, paper and board, printing, plastics, footwear, leather and rubber industries. Birmingham City Council this year identified 319 clothing companies in central Birmingham, with many more in neighbouring boroughs, such as Sandwell.

Where national insurance contributions are deducted they are often not credited, says Mrs Surinder Kaur, also of Aekta. "Employees only find out when they have lost jobs and cannot get unemployment benefit, or do not qualify for a pension." The agency also points to a sharp rise in the number of problems with statutory sick pay since this became the responsibility of employers. "People are frightened about taking on their employers," says Mrs Bassati. "Most employment legislation places the burden of proof on the employee, and without wage slips most of these workers cannot even prove they are employees," she says.

Labour costs compared table with columns for country and cost per hour.



Workers at K Fashions producing clothing for C&A stores

THE WORKERS

Poverty wages drive workers to despair

Akhbar desperately wants to lose his job. He says he is good at his work, cutting pattern pieces for jackets, but he cannot stand the low pay.

In common with many workers in the low-pay sector of the clothing trade, he would receive more on social security, but cannot qualify unless he is sacked. Akhbar's story is typical of many workers who allege they are being exploited by clothing manufacturers. He is in his mid-30s, earnest and law-abiding, but, like others interviewed at a location kept secret from their bosses, he fears harassment if his real name is disclosed.

These are often cancelled without compensation, through pressure of work. Radha, who also asked for her identity to be kept secret, is a machinist for a jacket manufacturer. She arrived weeping at the interview after a row with her employer, who she said had deducted the equivalent of two hours work from her piece rate, the amount paid for each garment.

She says it is not unusual for the piece rate to be cut. When the company began making jackets four years ago, machinists were paid 35p to make the outer body of each one. Initially, they made 30 to 40 jackets a day, generating a weekly wage of around £80.

Workers and employers in the sector is of Asian origin, says: "Asian workers are suffering both ways. Their own community is exploiting them, and elsewhere they face discrimination." The worst cases of all are the home-workers on whom most of the clothing sector depends. Shanti, not her real name, makes linings for coats and jackets, sometimes for C&A. She gets paid 14p for each one. "If I am working hard, I can make 25 to 30 in two hours, but that would be working continuously. It never happens that way." If it did, it would generate a wage of between £1.75 and £2.10 an hour.

He earns £100 a week gross - £93 net - working from 9am until 6pm. Housing, electricity and gas bills account for more than 60 per cent of his wages, and on top he has to pay council tax. In April, Birmingham city

After 17 years in the job, Akhbar gets a better deal than his workmates. He says they typically work from 8am to 8pm on weekdays and 8am to 4pm on Saturday. Many are illegal immigrants earning £75 to £80 a week. Akhbar says they receive no pay for bank holidays and, although his company promises two weeks paid holiday a year,

workers are concerned with the quality of clothing, not working conditions, says Mr Tony Burdett, general manager. "They are not interested and not involved at all with what we pay our employees."

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A Birmingham blouse table with columns for item and cost.

TECHNOLOGY

Take-off for servers

Last year air traffic controllers at the London Area and Terminal Control Centre in West Drayton handled 1.5m flights, 6 per cent more than the previous year. Now, with growth projected to continue a £350m New En Route Centre is being built on the south coast of England, between Southampton and Portsmouth.

The new facility will take flight data from nine radar installations around the country. When it goes live at the end of next year, it will be the world's biggest and most advanced air traffic control centre.

It will also be the first to use a distributed client/server computer architecture rather than a conventional mainframe. "The Civil Aviation Authority had three mandatory requirements: total fault tolerance, performance and growth potential," says Ron Zobrist, testing director with Lockheed Martin, the prime contractor for the £150m system. "By using Risc (reduced instruction set computing) processors to drive the controllers' workstations and then linking them on a multiple, bridged Token Ring local area network, there is not only no single point of failure, we can also build in automatic failure recovery using alternative or hot standby processors."

To fully test the complex software, more than 2m lines of software code - including a new user interface - have been written for 23 different software subsystems. "When it came to generating the major test scripts needed to manipulate the software and then, in the absence of air traffic controllers, run simulations of all the different software systems, we needed a high degree of automation," says Richard Willmott, test tools team leader.

Willmott chose XRunner, an automated testing tool built by Israeli-based Mercury Interactive, for the task.

Paul Taylor



BEHIND THE NET

The Internet is just a buzz word for most people, with the majority of households lacking a personal computer and modem. But several big European, US and Japanese electronics companies hope to bring the Internet to millions of people through the TV set.

They plan to introduce WebTVs and special set-top boxes that allow existing TVs to access the Internet.

WebTVs are generally described as 21in to 35in screen TVs that include a modem, a microprocessor, special graphics and text display chips, and Internet software that allows people to browse Web sites and exchange e-mail.

Several leading WebTV ventures have announced this year. Mitsubishi Electric is to introduce WebTVs in Japan later this year, with introductions planned for foreign markets early next year if consumers show demand.

Other Japanese and Korean electronics companies, including Hitachi, JVC, Samsung, Sanyo and Sharp, will follow with similar WebTV sets later this year. Meanwhile, Sony has teamed up with Philips Consumer Electronics to introduce what the Dutch group will call the Philips Magnavox WebTV in the US and European markets later this year.

"Our consumer research shows there are 40m households just waiting for the Philips Magnavox WebTV. We expect this to be one of the hottest consumer electronics products during the busy (Christmas) holiday shopping season," says Philips.

The Philips WebTV product features a fast 32-bit microprocessor, a 32.6 kilobits per second modem that can support both data and voice communications, CD-quality audio output, 2MB of memory and software stored on read-only memory chips. It will have additional features such as a smart card reader for electronic payment when shopping, an enhanced remote control for Internet navigating and a wireless keyboard.

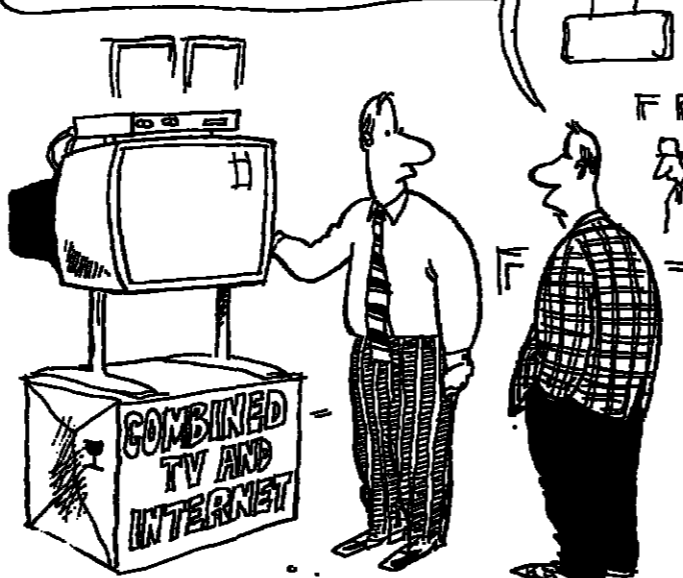
WebTVs are a hybrid product, combining a personal computer and a conventional TV set. The main challenges are: finding a way to display text clearly on a TV screen which has a fuzzy resolution compared with a computer monitor; cramming the Internet software into special read-only memory chips; providing, or arranging to provide, an Internet connection.

Solving these challenges has

Tom Foremski browses through the Internet-TV hybrids aimed at creating a new market of users

Surfing on the box

WOULD YOU PREFER A COMBINED TV AND MICROWAVE TO SAVE GOING ALL THE WAY TO THE KITCHEN DURING THE ADS



ROGER BEAVE

led to most WebTV manufacturers licensing key technologies from companies whose products have special versions of Internet software that take up less memory and can be more easily contained in read-only memory chips.

The Sony/Philips venture, for example, is using technology developed by WebTV Networks. This US start-up company has developed technologies that will make the display of Web site pages easier to view on a TV, including support for Japanese Kanji characters. Other companies with similar technologies include the Japanese company Access, US-based Diba, and Spyness with its Internet software.

WebTV Networks and Diba also plan to offer small boxes that can be plugged into TVs and offer many of the same capabilities as those found in WebTVs.

WebTV Networks estimates that it will be possible to produce a low-priced Internet connection box costing \$150 to \$350 in the US that can be connected to an existing TV. In addition, it plans to offer Internet services such as e-mail, and the Internet connection to WebTV customers.

"From a technology standpoint WebTV (Networks) seems to have answered what consumers will want from a browsing box. It works, and the partners they have in the wings have tremendous clout with consumers and the right distribution channels," says Ross Scott Rubin, an analyst at US market research firm Jupiter Communications.

Diba is taking a similar approach to WebTV Networks and has won its own set of supporters. Zenith Electronics, the US TV maker, says its NetVision WebTV sets will feature Diba's technology.

Farid Dibachi, chairman and co-founder of Diba, believes that Internet access can be built into a wide range of different types of electronic devices. "You don't need to be a computer jockey to take advantage of the tremendous wealth of valuable information available on the electronic superhighway. If you have the right tools," says Dibachi. "NetVision will allow consumers for the first time to experience the Web without the expense or complexity of a PC."

Some analysts are enthusiastic about the market prospects for WebTVs. Envisioning Group, the US market research firm, estimates that 1m WebTVs will be sold in the first year of introduction and that by 2001 about one third of the TVs in US homes will have Web access capabilities.

Frost & Sullivan, another US market research firm, believes that the market for what it calls PC-TVs will reach \$26bn in 2001, and a significant part of that market will include WebTVs.

But the road to selling millions of WebTVs will not be a smooth one and WebTV manufacturers will have to consider many factors. WebTV prices will be much higher than for regular TVs, so they will have to be aimed at more affluent customers. It is precisely this market segment that is more than likely to own a PC and modem and have Internet access already.

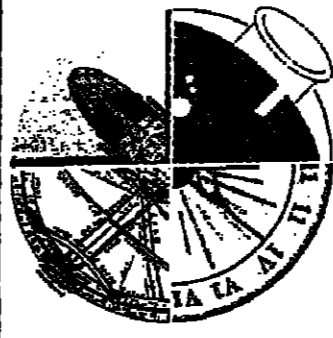
With Internet software changing every few months, WebTVs that cannot be upgraded easily will leave many customers dissatisfied. And since a majority of TV watchers are not PC users - who would know how to install software - upgrading the WebTV's software would have to be done automatically via the Internet. Manufacturers must therefore provide an Internet-based service that will perform this chore.

Mixing what is in essence a PC function - browsing the Web - with passive TV watching is a problem in itself.

Most people sit 9ft to 12ft from a TV, making it difficult to read the text of a Web page unless it is enlarged, which means reformatting the page or endless scrolling to the right, and down, to view the entire page.

It all amounts to a confusing array of new TV products and services. Consumers generally stay away from such new product categories until there are a set of simpler choices.

Worth Watching - Vanessa Houlder



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Franshofer Institute for Applied Polymer Research, Germany, tel 332846300; fax 332846317.

Why aerospace tangs may go

The technique used to strengthen joints in castings and components in the aerospace, transport and engineering industries could be significantly simplified and speeded up using a newly designed device.

Traditionally, the "threaded inserts" that are used to strengthen holes in castings have been driven in with the help of a "tang", or metal attachment that has to be broken off and removed after the installation.

Researchers in Japan have developed an alternative approach to twisting the inserts into the holes, using a tool that locks on to a notch carved at the top of the insert.

Kato Precision, which makes the inserts in the UK, says that the new design could halve the cost of installing inserts by eliminating the need to locate and remove broken tangs.

Where we're at

A personal navigation device is set to be launched next spring that can pin-point an individual's exact position on any map.

The map plotting device is designed to be used in conjunction with a hand-held global positioning system that provides data on the user's latitude and longitude. The mouse-like device has indicator lights that help the user guide the device to the right position on the map.

Yeoman intends the accessory, which is a lighter, cheaper version of a system currently used in yachts, to cost about £100. It expects it to be popular in sports that cover large distances, such as hunting, ballooning and skidoo riding.

Yeoman: UK, (0)1590 679777; fax (0)1590 671717.

A quick reader

Researchers working on digital video discs that can play videos are racing to develop a new generation of lasers. That is because the discs are "read" by lasers which need ever shorter wavelengths if they are to play back the massive amounts of data stored on the discs.

Toshiba believes it has come closer to this goal by developing a semiconductor laser, based on extremely thin layers of gallium nitride compound crystals, that emits a pulsed laser beam with a wavelength of 417 nanometres.

That wavelength would be sufficient to read a single-sided disc with 15 gigabytes of data. By contrast, the current generation of digital video discs contain 4.7 gigabytes of data and use a laser with a 650 nanometre wavelength.

Toshiba: Japan: tel 334572106; fax 334564776.

Cellophane's clear potential

Cellophane, the clear, rustling material used to wrap chocolates, cigarettes and flowers since the 1930s, has lost ground to less expensive plastics. But German researchers have developed a cheaper, more environmentally-friendly manufacturing technique which they think could revive its prospects.

The technique, devised by the Fraunhofer Institute for Applied Polymer Research, involves dissolving the cellulose and blowing it like a bubble - a process that allows its strength and elasticity to be controlled precisely.

The advantages of this cellulose film are that it is just a few microns thick,

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EUROMARKET AWARDS 1996

In a special ceremony held in May in Brussels in the framework of the 10th EUROMARKET FORUM organised by EMRC, and in presence of ministers and officials, 28 non-EU enterprises won the EUROMARKET AWARD. This Award was also granted to two Nigerian enterprises: National Maritime Authority and SIO Industries Ltd., based on criteria established by the EMRC Award Committee. These criteria apply to several areas of excellence covering commercial activities both in the specific region where the enterprise is located and towards the European Union. Interviews with the heads of both enterprises gave considerable insight into the reasons for their excellence and success in their respective fields of endeavour.

NATIONAL MARITIME AUTHORITY

During the past four years, Nigeria has made considerable progress in extending its national fleet and implementing its national shipping policy. These achievements were accomplished by the National Maritime Authority which will play an even more essential role in future developments. Mr. Alhaji Mohammed Munir Ja'afaru, Director General of the Authority since 1992, believes that the Authority has to build on its successes over the next five years, both within Nigeria and West Africa as well as on a worldwide basis. The Authority's main activities are: coordination of national shipping policy, monitoring activities of vessels and assisting with training. Pointing to important achievements, Mr. Ja'afaru cites soft loans to Nigerian companies for shipping acquisitions and repairs, the establishment of training programs within the Nigeria Maritime Academy and outside the country, and channelling resources for cooperation within the subregion. "Over the next five years we intend to achieve a further expansion in Nigeria's fleet," he predicts. "The Authority is looking for joint ventures with some developed maritime sectors. We are also talking to investment banks in the developed countries about investment in our maritime sector." On an international level, Mr. Ja'afaru is quite clear about what he expects. "We are not against competition, but we can only compete among equals." He is not opposed, in principle, to abrogation of

the UNCTAD Code of Conduct 144020 which would lead to liberalisation, but "we are waiting for the opportunity when developing maritime nations will be able to make significant achievements and increments in the maritime sector. The developed countries are considerably in advance of us, so they should not insist on immediate liberalisation. Just as these countries give assistance to their shipping sectors, we need to offer incentives and encouragements to our developing shipping companies." Regarding the European Union, Mr. Ja'afaru states that the relationship has improved greatly in the past three or four years. "We are avoiding confrontation and creating dialogue with a spirit of give and take. The mistrust that existed has disappeared, thanks to the way we are handling the relationship." The National Maritime Authority has also created a national shipping company called Nigeria Unity Line (NUL), which sells parts of its shares in the near future - another example of the conducive atmosphere for foreign investors in Nigeria.



Mr. Ja'afaru addresses the audience during EMRC Forum

SIO INDUSTRIES LTD

European companies and investors have not been exploiting to the fullest the numerous advantages offered by the Nigeria market today, according to Chief Odogwu, one of Nigeria's leading businessmen and Chairman of SIO Industries Ltd. The free entry and exit of funds, the capital available in Nigeria itself, stability, and availability of natural resources are all attractive features of a market comprising over 100 million people - the seventh largest country in the world. Chief Odogwu also points out that the privatisation campaign undertaken by the government has facilitated considerably the possibility to participate in Nigeria's economy. "Very few countries can compete with the speed and nature of the privatisation policy in Nigeria, which is extremely far reaching," he comments. These views are also shared by Mr. John Ebhodaghe, Managing Director of the Nigeria Deposit Insurance Corporation, who accentuates the importance of the free export zone established by the government to encourage foreign investment. By ensuring the capability of importing and producing tax-free in order to export competitively, Nigeria creates confidence, "confidence essential for investment," Mr. Ebhodaghe underlines. The Nigeria Deposit Insurance Corporation, a public agency, has contributed to the atmosphere of confidence by sanitising the banking industry, guaranteeing payment in the event of failure, and prosecuting contravention of banking laws. Mr. Ebhodaghe affirms that he is looking for cooperation from the European Union for technical assistance in regard to supervision and regulation as well as training and financial aid. Chief Odogwu furthermore underscores several other attributes which make Nigeria attractive to foreign investors - good infrastructure, abundant electricity at favourable rates, and trained, inexpensive labour. "Nigeria is poised for competition," he says. "It is ready for entrepreneurs and manufacturers who wish to export to the rest of the world." SIO Industries has clearly positioned itself to take advantage of carefully targeted export markets for its polypropylene and ethylene sacks, ropes and other deriva-



Chief Odogwu receives the EUROMARKET AWARD from EMRC President, André Van Roey.

tives. The United States constitutes the primary market for SIO, but Chief Odogwu is actively seeking new partnerships in Europe, from which he now imports raw materials and machinery. He feels strongly that European companies are overlooking the opportunities in Nigeria, either through joint ventures or their own direct investment now possible under current legislation. "Europe tends to concentrate on Asia and Latin America, ignoring the numerous possibilities in West Africa which is closer to home and very friendly towards foreign investors," Chief Odogwu says. In addition to petroleum, Nigeria offers a variety of solid minerals, including gold, as well as many agricultural products. Chief Odogwu explains the political situation in Nigeria by the need to assure stability and to avoid civil strife which has existed in several other African countries. "The present government will turn over power to a democratically elected government in 1998 in a situation of political calm and economic development." "Nigeria is a very resilient country, going through a difficult transition. I believe that we shall be successful, but we do need help from the European Union and other developed countries."

Steve Freidberg

Photographer - Mape, Belgium

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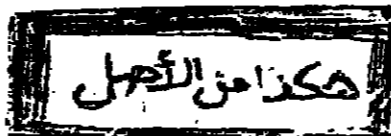
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Triumph from disaster

JUDE Michael Winterbottom

THE NUTTY PROFESSOR Tom Shadyac

COURAGE UNDER FIRE Edward Zwick

TOUCH OF EVIL Orson Welles

LETTERS FROM THE EAST Andrew Grieve

English cinema is still selling off the family art treasures. With the major oeuvre of E.M. Forster already fallen under the clapperboard and Jane Austen going, going, almost gone, this week sees Thomas Hardy brought into the auction room.

Here is a different selling challenge altogether. You cannot commend Hardy for his prettiness or filigree humour. Disasters take place under crumpling skies in a corner of the English countryside that is forever Tragic Irony.

precocity and grim-reaper menace.

The son precipitates the story's worst shock of all, which must remain unspecified for those who don't know or remember the book. (At the Cannes showing the whole audience gasped in horror.) If Jude simplifies the story, it never emasculates it. Stuart Dryburgh's photography begins grim - low, lurid sunlight raking a crowd-dotted ploughed field - and gets grimmer. Christopher Eccleston's Jude has a medieval death-mask face, lit by pinprick eyes and awful flickers of hope. And Winterbottom gets down in the mire to film such dear rural habits as slaughtering pigs with a blunt knife and breaking the necks of trapped rabbits. Don't bring Aunt Edna the animal preservations.

It could have ended up at an opposite pole to Forster/Austen: Cold Comfort Farm at the movies. But English heritage cinema has another unsold, or unexhausted, treasure in Kate Winslet. Fresh from Sense and Sensibility she brings a quick, tart intelligence and vulnerable beauty to Sue Bridehead. As the book-learned cousin for whom Jude drops his straw-chewing first wife Arabella, she is perfect: at once bright and brittle, numinous and nervy.

For Hardy this relationship has curses all over it like sticking plaster. It is semi-incestuous; faithless to Jude's peasant origins; tainted with progressive thinking. (The book half-admires, half-recalls from Sue's bossy modernism.) Jude's secretary Hoseney Amini, faced with the problem that what seemed modern in the 1890s won't now, takes a deep breath and bungs in some 1990s anachronisms. "You're being rather contraband," jargonises Sue. "And later," "I'm intellectualising, aren't I?" It works. Better an irritated audience than one



A corner of the English countryside that is forever Tragic Irony: Kate Winslet and Christopher Eccleston in 'Jude'

sedated by period propriety. Other surprises are thrown in to increase sonic or visual disorientation. A cinema-figuring magic lantern show at a fairground (Hardy's novel was published in the very year now regarded as the birth date of movies, 1895); and a deal of train noise to show we are in an age which seemed as industrially noisy to its denizens as ours does to us.

So when the door opens on the nightmare tableau of the climax, our own nerves have been as softened up as the characters'. The skies have become darker and bleaker, without ever diminishing the light they shed on the souls beneath, as they struggle with their private heavens and hells. And give or take some overuse of Bach and cod-Bach on the soundtrack and some odd casting (June Whitfield as Aunt Drusilla?), Hardy, looking down on the movie from his own stern clouds, would surely approve.

"It's a comeback!" cries the film world every year or two, as Altman, Travolta or some other fallen icon rises from what seemed irrecoverable oblivion. Now they are saying it about Eddie Murphy, late of Beverly Hills Cop but later still of Harlem Nights, Vampire In Brooklyn and other excruciations.

The Nutty Professor is currently lubricating turnstiles across America with its reworking of the 1963 Jerry Lewis comedy about a Jekyll-Hyde schoolteacher. Murphy plays Sherman Klump, by day a jowly 300-pounder struck by love for a pretty colleague (Jada Pinkett) by night - or after imbibing his hamster-tested wonder drug - a slim, spruce Murphy lookalike. On top of these roles, the star plays five others, including Klump's entire family who seem permanently grafted to their noisy dinner table. (Flatulence is a speciality, along with some stridently inaudible comic dialogue.)

US. But to whom are audiences actually flocking, Eddie Murphy or Eddie Murphy? The computer transformation or "morphing" effects are far more entertaining than the script or the star's loud, grinning-idiot performance. As in The Mask, reality becomes seamlessly surreal as bits of the hero's body rebel against other bits - here a giant lower lip, there a suddenly ballooning bottom - and we gasp so frequently that we forget we are not actually laughing.

In Courage Under Fire Hollywood has caught up with the Gulf War. But the Gulf War has not quite caught up with Hollywood. The opening friendly fire incident on the Saudi-Kuwait border in which Colonel Denzel Washington mistakenly blows up a US tank, proves prelude to two hours of all too clichéd post-war agonising. Washington, exculpated but still troubled, is deputised

to investigate another military can of worms: is the war-slain Meg Ryan, who died to save a platoon in a separate fracas, worthy to be the first woman to receive a Medal of Honour? Or is there in her story too more than meets our eye, mainly through a series of Scud flashbacks that sear into the talky present-day scenes.

As Washington conducts his Rashomon-style interviews with Ryan's disagreeing ex-comrades, we are clearly into a movie about Truth, Honour and all those upper-case abstractions so beloved of the TV movies which this one resembles. Though not based on a true story, Courage Under Fire has the smug portentousness of films that are. And we are left feeling uneasy that a real war, with real, complex and global reverberations, has been reduced to a glib trigger mechanism for déjà vu American self-examinings.

welcomes Touch Of Evil. Orson Welles's 1958 mini-classic gives us chiaroscuro and crazy make-up in Mexico, as Charlton Heston in brown-face, Marlene Dietrich in gypsy drag and Welles in false nose and extra body-padding - can we imagine a time when he needed it? - play upright cop, fortune teller and corrupt cop. Studio-butchered in the 1950s, the film was "restored" in 1975 and became recognised, if not as a masterpiece, at least as a wild and wondrous footnote to Welles's career.

Letters From The East, when Lulu goes for a job, she and Robbie become entangled in a murky, drug-dealing world, while Mark's efforts to cure his addictions involve him with an abused 14-year-old rent boy. Everything has a price, they learn, and money is the root of all evil. It is a bleak dysfunctional world, spliced together in Max Stafford-Clark's production with ear-splitting music and garish fluorescent signs denoting change of scene. The rhythm is club culture; the mood soulless; style is everything. Spiced with dark wit, the play works effectively as a furious portrait of an under-valued, value-less generation, but whether it achieves much more is debatable. It certainly "demonstrates some of the serious problems of today", but "demonstrate" is all it does. None of the characters has any depth - although Kate Ashfield does a lot with the twitchy Lulu - and the plot is unconvincing. The play's impact is as short-lived as the pre-packed, throw-away meals on which the characters survive.

Theatre

A furious portrait of society

Since the Royal Court Theatre heralded its temporary residence in the West End with adverts proclaiming, "there goes the neighbourhood", a bit of rogish programming was on the cards. And sure enough, the theatre lives up to its naughty image by hosting the premiere of a new play (co-produced with Out of Joint) whose title alone, Shopping and Fucking, invites outrage. Still, given the content, there can be no complaints that the title raises false expectations - although "Shocking and Swearing" might do as well.

If you want to be shocked, there are plenty of opportunities. Any outcry is preempted, however, by a page in the programme about "Society, Violence and the Theatre" quoting Kenneth Tynan, among others: "Unless we can use the theatre as a platform on which to demonstrate the serious problems of today, particularly violence, we feel that we are not serving a useful purpose in society."

And, as with Blasted and Transposing, this new play takes violent and sordid encounters and hurls them onto the stage to make the point that portraying such things is not really shocking; what is really shocking is the corrupt society that permits such waste of life. Mark Ravenhill's play is a moral fable.

He offers a curdled picture of a world where everything is disposable and all relationships are "transactions". He focuses on three flat-mates who have an education but no job prospects. Mark (James Kennedy) is an junkie, Lulu (Kate Ashfield) an out-of-work actress and Robbie (Andrew Clover) a party-boy passenger. When Lulu goes for a job, she and Robbie become entangled in a murky, drug-dealing world, while Mark's efforts to cure his addictions involve him with an abused 14-year-old rent boy. Everything has a price, they learn, and money is the root of all evil. It is a bleak dysfunctional world, spliced together in Max Stafford-Clark's production with ear-splitting music and garish fluorescent signs denoting change of scene. The rhythm is club culture; the mood soulless; style is everything.

Opera/Richard Fairman

'Ring' with a split personality

It is hard to forget how Bernard Haitink's face fell as he saw the designs for this new Ring being unveiled during the Royal Opera House documentary earlier in the year. "Cut the cat", suggested somebody to the producer gently later, tactfully trying to smooth things over.

Unfortunately, that plea fell on deaf ears at Covent Garden. The 1960s two-door saloon still rolls on at the beginning of the second act of Die Walküre. Some changes have been made to the production of this opera for the complete cycle, including revised sets for the second and third acts, but the salient points that upset people before are still in place. After all, getting rid of them would be tantamount to admitting defeat.

The real problem, it seems to me, is a complete mismatch between the producer and the conductor. There is Richard Jones putting two fingers up to Wagnerian tradition on stage, while Haitink down in the pit is doing his best to keep the tradition going, the last person to admit any irony or post-modern slant to the music. Nowhere today is there another conductor who can make Wagner sound as supremely natural and unforced as he can.

It is almost bizarre to listen to Haitink's quietly grandiloquent unfolding of the "Todesverkündigung" scene and then look up at the stage to see Brünnhilde emerging from a roadside Fortakabin (where Siegmund is later murdered in a confused piece of

stage mismanagement). What a relief that his glorious conducting of the final scene is allowed to emerge unscathed.

That, however, is to jump ahead. The performance had not begun well; in fact the first act was one of the most dispiriting I can remember. Poul Elming's Siegmund started without much depth of tone and Ulla Gustafsson's Sieglinde was far too busy trying to squeeze out her voice down a narrow vocal tube (and often not in tune) to have time for any emotion. It was all quite passionless, despite Jones's thoughtful handling of his singers.

Nor did the second act begin more promisingly, with Brünnhilde and Wotan playing a heavily significant game of catch-me-if-you-can (incest clearly runs in the family). But these two performers lifted the evening on to a higher plane of Wagnerian music drama. There may be other bass-baritones who find the Walküre Wotan easier to sing, but John Tomlinson is head and shoulders above them in dramatic stature. His monologue raged with a Wagnerian intensity reminiscent of Jon Vickers; his "Abschied" was deeply moving.

As Brünnhilde, Deborah Polaski outstripped her Bayreuth performance and sang with unstinting power and security. A performer who has often seemed emotionally blank in the past came to life. Jones must take the credit for drawing such powerful characters out of his singers (the Wotan/Brünnhilde scenes probed deep into their hearts) but the price is a lot of silliness elsewhere. Do we really have to watch Wotan chasing puppets? Or his monologue treated like a cabaret show?

The rest was similarly up and down. Elming's Siegmund regained vocal presence later, despite being stuck down a hole in the ground where he could not be seen. Jane Henschel sang Fricka with plenty of light and shade, but also an un-Wagnerian fast vibrato; Matthias Hölle sang a heavily emphatic Hunding. The Valkyries were a mixed lot, but included among the best Rita Culissen, Penelope Walker and Catherine Wyn-Rogers.

Stiegfried, the third instalment, follows next Monday. After such a fine last act here from Haitink and his two principal singers, I am hopeful that this Ring's best elements will see their way through.

Sarah Hemming

Royal Court at the Ambassadors, London WC2 (0171-565 5000) to October 19, then on tour.



Deeply moving: John Tomlinson's Wotan

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT Concertgebouw Tel: 31-20-6718345 ● Ariello Desiderio: the guitarist performs works by Sor, Tarrega and Brouwer; 8.15pm; Oct 5

BERLIN

CONCERT Konzerthaus Tel: 49-30-203080 ● Orchester der Deutschen Oper Berlin: with conductor Rafael Frühbeck de Burgos perform Bruckner's Symphony No.8 in C minor; 8pm; Oct 4

OPERA

Deutsche Oper Berlin Tel: 49-30-3438401 ● Un Ballo in Maschera: by Verdi. Conducted by Rafael Frühbeck de Burgos and performed by the Deutsche Oper Berlin. Soloists include Michèle Crider, Elena Batoukova and Alberto Cupido; 7.30pm; Oct 5

Staatsoper Unter den Linden

Tel: 49-30-20354438 ● Salome: by R. Strauss. Conducted by Wolfgang Rennert and performed by the Staatsoper Unter den Linden. Soloists include Eberhard Böchner, Ute Trekel-Burckhardt and Andrea Böhm; 8pm; Oct 5

CHICAGO

CONCERT Civic Opera House & Civic Theatre Tel: 1-312-332-2244 ● Il Trittico: by Puccini. Conducted by Bruno Bartoletti and performed by the Lyric Opera of Chicago. Soloists include Catherine Malfitano, Rolando Panerai and Jean-Philippe Lafont; 7.30pm; Oct 4

COLOGNE

CONCERT Kölner Philharmonie Tel: 49-221-2040820 ● Kälner Rundfunk-Sinfonie-Orchester: with conductor Semyon Bychkov perform works by Berio and Brahms; 8pm; Oct 5

DUSSELDORF

DANCE Opernhaus Düsseldorf Tel: 49-211-89080 ● Ballett der Deutsche Oper am Rhein: perform Der Holzeschnitzte Prinz (The Wooden Prince) and Der Wunderbare Mandarin (The Miraculous Mandarin), choreographies by Béla Balázs and Metichor Lengyel to music by

Bartók; 7.30pm; Oct 4

HAMBURG

CONCERT Hamburgische Staatsoper Tel: 49-41-9351721 ● La Bohème: by Puccini. Conducted by Christian Bades and performed by the Staatsoper Hamburg. Soloists include Kathleen Cassello, César Hernández and Albert Schagidullin; 7pm; Oct 5

LILLE

EXHIBITION FNAC Galeries Tel: 33-20 42 09 30 ● Henri Cartier Bresson - "A furtive look at America": exhibition of black and white photographs taken in the US by the French photographer Henri Cartier Bresson. The photographs on display were taken between 1947 and 1974; from Oct 5-26

LONDON

CONCERT Purcell Room Tel: 44-171-9604242 ● James Lisney: the pianist performs Chopin's Fantasia in F minor, Op.49, Two Nocturnes, Op.55 and Sonata in B flat minor, Op.35 (Marche Funèbre); 7.30pm; Oct 5 ● London Mozart Players: with guitarist Julien Bream perform works by Haydn, Takemitsu and Iber; 8pm; Oct 4 ● Wigmore Hall Tel:

44-171-9352141

● Joan Rodgers and Gerald Finley: performance of Wolf's Märke Lieder by the soprano and baritone, accompanied by pianist Roger Vignoles; 7.30pm; Oct 4

OPERA

Royal Opera House - Covent Garden Tel: 44-171-2129234 ● La Bohème: by Puccini. Conducted by Jan Latham-Koenig and performed by the Royal Opera. Soloists include Leonina Vaduva, Cynthia Lawrence, Tito Beltran and Jason Howard; 7.30pm; Oct 4

LOS ANGELES

EXHIBITION Huntington Library, Art Collection and Botanical Gardens Tel: 1-818-405-2100 ● Arthur, King of Britain: exhibition of manuscripts, rare books and illustrative material tracing the development of the Arthurian legend as conceived and passed down from the Middle Ages to the 20th century. The exhibition focuses on how the British stories of Arthur became an integral part of European history and literature; to Oct 6

NEW YORK

CONCERT Carnegie Hall Tel: 212-247-7800 ● Shanghai Quartet: and pianist Joseph Kalichstein perform works by Haydn, Long and R. Schumann; 8pm; Oct 4

EXHIBITION

Whitney Museum of American Art Tel: 1-212-570-3600

● An American Story: a chronological survey of the museum's permanent collection of 20th-century American art. Divided into 15 categories and incorporating more than 200 paintings, sculptures, prints drawings and photographs, the exhibition provides an extensive overview of the art of this century; to Oct 6

PARIS

CONCERT Cité de la Musique Tel: 33-1 44 84 45 00 ● Jos van Immerseel: the pianist performs the piano version of Haydn's Die Siben letzten Worte unerser Erbersers am Kreuz, Hob.XX.I: 4.30pm; Oct 5, 6 (3pm) ● Théâtre des Champs-Élysées Tel: 33-1 49 52 50 50 ● Keller Quartet: perform Beethoven's String Quartet No.6 in B flat major, Op.18, String Quartet No.10 in E flat major, Op.74 and String Quartet No.13 in B flat major, Op.130; 11am; Oct 6

EXHIBITION

Musée d'Art Moderne de la Ville de Paris Tel: 33-1 53 67 40 00 ● Life/Live: exhibition focusing on contemporary British art. The display features works by some hundred artists, and includes photographs, videos, installations, paintings, drawings and other objects; from Oct 5 to Jan 5

ROME

OPERA

Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064

● The Marriage: by Mussorgsky. Performed by the Orchestra and Choir of the Kirov Opera with conductor Valery Gergiev and pianist Marina Miscuk. Part of the Italy and Russia Festival; 8pm; Oct 4

WASHINGTON

CONCERT Concert Hall Tel: 1-202-467 4600 ● National Symphony Orchestra: with conductor Leonard Slatkin and flutist James Galway perform works by Schoenberg, Maazel and Ravel; 8.30pm; Oct 4, 5

EXHIBITION

National Museum of American Art Tel: 1-202-357-2700 ● American Kaleidoscope: Art at the Close of this Century: works by 14 contemporary American artists from a broad range of regional, ethnic, and political orientations is arranged in three categories. "Shared Concerns", "Spiritual Expressions", and "Making History". Fred Brown, Renee Stout, Hung Liu, Mark Tansey, Gronk and David Bates are among the artists featured; from Oct 4 to Feb 2

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17.30 Financial Times Business Tonight

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18.00 Financial Times Business Tonight

COMMENT & ANALYSIS

Peter Martin

Delivery in the post

The resurgence of privately-owned postal services is creating new global giants capable of handling all aspects of distribution for business



Postal services have been government-owned for so long that it is difficult for us to imagine them in private hands. The deal under which KPN, the partly-privatised Dutch post and telecomm company, is to buy Australia's TNT transport group, reminds us that things were once different - and will be again.

Privately-owned multinational mail and parcel services have a long history. In 1489, Maximilian I gave Franz von Taxis the right to carry mail throughout the Holy Roman Empire. For nearly 400 years, the Thurn und Taxis family ran a Europe-wide postal service, employing at its peak some 30,000 couriers.

In the 19th century, growing governmental ambition swept away this early service-sector multinational. Its local operations were nationalised one by one, remembered today only by the Thurn und Taxis heraldic device, a golden postman's horn, which they bequeathed to their state-owned successors. The last Thurn und Taxis holdout, in Prussia, succumbed to the government in 1867.

Now, over a century later, the wheel has come full circle. Postal monopolies are under threat everywhere, from fax machines as much as from deregulation. If yesterday's transaction goes through a privatised postal service will own one of the four global private-sector express delivery companies.

So far this industry has been impressive more for its scale and ambitions than for its profitability. The four competitors - Federal Express, United Parcel Services, DHL and TNT - have managed to build worldwide networks of sorting hubs, aircraft, delivery vans and couriers. Their service has become a vital part of business for any internationally-minded company.

But the road has been bumpy: FedEx, for example,

was forced to scale back its European ambitions in the early 1990s. The steady profits of the large domestic US markets, which give FedEx and UPS their appeal, have been scarce internationally.

The deal between KPN and TNT offers a way out of this dilemma. It backs the global ambitions of the merged global express business with the stable profits of a domestic postal service. The resulting "global leader in time-sensitive distribution and logistics" is buttressed still further by the 23 per cent profit margin of KPN's other operating subsidiary, PTT Telecom, the Dutch phone company.

KPN's postal subsidiary, PTT Post, has always been the most internationally minded of Europe's mail services, bidding aggressively for the business of the region's bulk mailers.

PTT Post's international business is already twice as high, as a proportion of revenues, as that of other European post offices. Now, says Mr Ad Schoepbouwer, PTT Post's managing director, it will be able to combine its own remaining operations with those of TNT's comparable Mailfast service.

The short-term test of the new group's success will lie in parcels, where it will be number one in Europe, rather than documents, where DHL leads the pack. KPN and TNT already share (with the Swedish postal service) an operation in cross-border shipments; they will now be able to fight more effectively in domestic markets.

Though the business is growing - at 10 per cent a year internationally, 5 per cent a year in domestic markets - competition is tough.

Prices fall every year, and all four global express companies compete aggressively on price and service.

Against such a background, others may seek to emulate KPN's deal with TNT. The scope for straight-forward mergers is limited: few other postal services can boast KPN's advantages of a public listing and a telecoms cash-cow. But other kinds of alliances between global express businesses and national postal services are possible. The visceral mistrust between the two is fading: TNT has a contract with Deutsche Bundespost to ferry parcels from the German post office's sorting hubs, for example.

For all four global giants, however, the most exciting opportunities lie in the hectic growth of the logistics outsourcing business. This ill-defined industry has

roughly \$12bn of annual revenues in Europe, growing at 20 per cent a year, says Mr Schoepbouwer. Typically, a logistics outsourcing takes over part of a company's supply chain, managing any or all of the business's warehouses, components supply, spare parts distribution and customer service.

The business is benefiting from two mutually reinforcing trends. Manufacturers are striving to focus on what they do best, contracting out the rest of their activities. They are also pushing themselves towards regional integration in both Europe and Asia, concentrating their activities in fewer, bigger factories. Handling the logistics of such regional networks is a natural task for outsourcing.

Such developments help ensure that over the next few decades, the physical delivery of objects - paper, packets, parcels - will become a fully integrated global business. Individual segments, such as personal letters, bulk mailing, document delivery, logistics and so on, will each have two or three dominant companies. Some companies will specialise. The size and scale of the US will give its companies a significant, though not decisive, edge in this competition. Most competitors will be mainly or partly in the private sector; the remaining state involvement will come through residual shareholdings or lingering regulation.

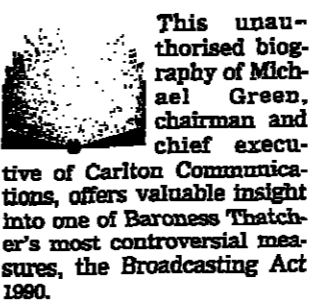
This high-technology, jet-and electronics-based industry will be a long way from the lonely horse-back couriers of the Thurn und Taxis empire. But the new barons of the global delivery industry will be the spiritual heirs of the business on which Maximilian set the imperial seal five centuries ago. Some will even carry the golden post-horn on the side of their delivery vehicles.



BOOK REVIEW - Sir Paul Fox

GREENFINGER: The Rise of Michael Green and Carlton Communications
By Raymond Snoddy, Faber and Faber, 320pp, £17.50

The man who would be television king



This unauthorised biography of Michael Green, chairman and chief executive of Carlton Communications, offers valuable insight into one of Britain's most controversial media figures, the Broadcasting Act 1990.

The Act changed the face of British television, but the debate continues over whether it has been for the better. As the book makes clear, it has certainly been for the betterment of Michael Green and one or two others.

When I was asked to write this review, I hesitated for about 10 seconds. Readers should know that Michael Green invited me to become chairman of Carlton Television, an offer I declined after some reflection. Hence his dismissal of me in a charming phrase that could not be repeated in any newspaper (page 192, since you ask).

I must declare two other interests: on leaving the BBC, I joined Thames Television which lost the London weekday independent television franchise to Carlton in 1992. Also, like many others in television, I have a high regard for the FT's Ray Snoddy, who remains the best-informed writer about British television.

Michael Green's journey on the takeover trail which made Carlton into one of Britain's largest broadcasters is predictably boring. But television was always his target and that is when he gets interesting. First, he wanted to take over London Weekend Television in 1985 but was turned down by the Independent Broadcasting Authority, the regulator at that time. Green, by then used to getting his own way, was rebuffed by the bureau-creats at Broadmoor Road, in his view, ITV licences should

be bought and sold like any other business.

The next target was Thames Television. Its owners, Thorn-EMI and BET, were disenchanted with television and anxious to sell. In September 1985, a price was agreed - £82.45m - but Carlton had the option to pull out if the IBA blocked the deal. It did.

Twice rebuffed by the IBA, Green remained determined to become a broadcaster. He continued to stalk Thames, was offered 80 per cent of TVS which held the ITV franchise for the south of England, and even dreamed of a merger with Granada.

But it was his appearance at Lady Thatcher's 1988 Downing Street seminar about the future of UK television which convinced everyone that Green was being taken seriously at Westminster. Even Snoddy is not clear why he was there, other than being invited by Lord Young, his cousin by marriage and then one of the prime minister's favourite ministers. It was in the upstairs drawing room that Lady Thatcher "revealed" her contempt for Britain's broadcasting elite and denounced ITV as the last bastion of restrictive practices", according to Snoddy.

The Downing Street seminar led to the white paper on broadcasting and the Broadcasting Bill which introduced a blind auction in which all the ITV franchises went to the highest bidder. It was hardly the way to bring about two of the government's objectives of "competition, choice and quality".

Of those who were alongside Green when he submitted the winning bid that threw out Thames, only one or two remain. But he had reached his ambition, and is now, according to Snoddy, "the most powerful man in British television". It is on

this basis that he has to be judged.

Yet while he controls two of the most powerful ITV companies - Carlton and Central - so does Gerry Robinson of Granada and LWT. Robinson has two priceless programme assets: World in Action and Coronation Street. Green has none.

Where does he stand in comparison with the TV giants of the past such as Lord Lew Grade and the late Lord Bernstein? In my view, he is not within reach. Bernstein and Grade were showmen first and businessmen second; both had a genuine sense of public service.

Green is totally a businessman, running an effective money-making machine. He claims, according to Snoddy, that he wants to rival Hollywood in popular culture.

There is nothing to prevent him from doing so. Central Television was making films through Zenith, its subsidiary, before Green acquired it. Green could commit money tomorrow for the production of half a dozen films. But that would be a leap into the unknown and he is not an adventurer.

As for Michael Green, the man, Snoddy is even-handed about him. There are accounts of his undoubted charm, his devotion to his children, his circle of friends from television and advertising. Balanced against that are stories of rages, his obsession with money and memories from those sacked or by-passed. It is not clear which is the bigger group: those who like Michael Green or those who loathe him.

The author is a former managing director of Yorkshire Television and of BBC Television. Greenfinger is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1851 (outside the UK). Free p&p in UK

Pfizer forum Individual treatment of high blood pressure: Good medicine, good economics.
BY LENNART HANSSON, M.D.

As governments throughout Europe seek to control health care budgets, some hope to cut costs by restricting reimbursement of certain medicines, in some cases by limiting reimbursement to the older or cheaper drugs in a class. A leading expert on hypertension warns that restricting access to medications in this manner can lead to both medical and economic problems.

When President Franklin D. Roosevelt met with Churchill and Stalin at Yalta in February 1945, his health had already deteriorated noticeably, as Churchill noted in his autobiography. Roosevelt suffered from severe hypertension, with blood pressures in the range of 240/140, compared to today's recommended level of 120/80. The only treatment available to him was a low-salt diet and restriction of calories, but this was far from successful. He did not survive long enough to see the Second World War come to an end, but died from a massive stroke in April 1945.

The lack of effective medications to treat high blood pressure only 50 years ago, even for the President of the United States, is in marked contrast to today, when numerous classes of antihypertensive medications, with hundreds of different compounds, are widely available to all patients with high blood pressure. This has made it possible to tailor the medication to the precise needs of the individual patient - in other words, to find the best treatment for each individual patient.

It is important that physicians have access to the widest possible range of therapeutic options, especially in the treatment of chronic disorders, such as hypertension, since every patient is an individual and may react differently to medicines with seemingly minor differences. Controlling hypertension is especially tricky since this is a long-term disease and most patients have no symptoms. Therefore, if the medication itself causes adverse effects - and if the physician is restricted from prescribing another medication which might better suit that patient - it is likely that the patient will not take the medicine as

prescribed. In other words, compliance will be low. Low compliance will of course reduce the therapeutic effect, and the patient will not receive the expected benefits. In the case of hypertension, this can lead to serious complications such as strokes or heart attacks. From a public health standpoint this results in greater costs to health care systems. Many attempts have been made to quantify the monetary value of compliance.

often accompanied by a number of metabolic disturbances in the body, such as increased cholesterol and blood sugar as well as insulin resistance, it is of course desirable that antihypertensive medications do not further aggravate such changes. Studies have shown that newer compounds such as the calcium antagonists satisfy this objective.

Finally, it is imperative that drugs used to treat chronic diseases, such as high blood pressure, are safe and well tolerated. It is worth emphasizing that all drugs that are available today have been extensively tested in this regard, as required by law. It is therefore comforting for patients to know that today, unlike 50 years ago, high blood pressure can be effectively and safely treated by individualised antihypertensive medication. This has repeatedly been shown to markedly reduce associated risks such as strokes and heart attacks.

Dr. Hansson is a professor of medicine at the University of Uppsala, Sweden. He is currently the President of the European Society of Hypertension and was the President of the International Society of Hypertension 1994-1996.

are marked differences between individual drugs. The most useful antihypertensive agents - including those in the calcium antagonist group - feature a smooth onset of action and a reliable 24-hour duration of action. Even among the newest and most advanced of these medications, there exist significant differences for patients in terms of blood pressure control and side effects. Furthermore, since high blood pressure is

often accompanied by a number of metabolic disturbances in the body, such as increased cholesterol and blood sugar as well as insulin resistance, it is of course desirable that antihypertensive medications do not further aggravate such changes. Studies have shown that newer compounds such as the calcium antagonists satisfy this objective.

Finally, it is imperative that drugs used to treat chronic diseases, such as high blood pressure, are safe and well tolerated. It is worth emphasizing that all drugs that are available today have been extensively tested in this regard, as required by law. It is therefore comforting for patients to know that today, unlike 50 years ago, high blood pressure can be effectively and safely treated by individualised antihypertensive medication. This has repeatedly been shown to markedly reduce associated risks such as strokes and heart attacks.

Dr. Hansson is a professor of medicine at the University of Uppsala, Sweden. He is currently the President of the European Society of Hypertension and was the President of the International Society of Hypertension 1994-1996.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 8UL

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Inflation evidence is wrongly extrapolated

From Prof Lucio Izzo.
Sir, Michael Prowse is absolutely right ("Inflation apologists", September 30) in his criticism of Professor Akerlof and colleagues who argue that zero inflation is not an appropriate target for monetary policy. In support of their argument, they produce evidence, as indicated by Mr Prowse, that downward real wage movements are rare when the price level is stabilised, but more frequent when inflation is positive. Here we have the Keynesian ghost of nominal downward wage rigidity, whose assumption bears no small responsibility for the inflationary bias impressed on macroeconomic policies around the world from the 1950s to the 1970s.

Undoubtedly Mr Prowse is quite right that it would be absurd for market participants to regard any given cut in real wages as "more" unfair with zero inflation than with an inflation rate different from zero. Nevertheless, the

argument of Akerlof and colleagues, being based on empirical evidence, cannot be dismissed simply because it implies irrational behaviour. But it has been rejected because it wrongly extrapolates evidence on nominal downward wage rigidity, collected in an environment of a rapid positive average nominal wage change to a hypothetical situation of zero nominal wage change. Hence, if the macroeconomic environment were different, microeconomic behaviour would be different.

Furthermore, standard evidence shows that nominal wages were not downward rigid in the Great Depression 1929-1933, but rather declined by 17 per cent. The problem then was a very upward flexible money wage.

Lucio Izzo, professor of economics, Catholic University of Milan, via Melzi d'Eril 7, 20154 Milan, Italy

Euro not dependent on being legal tender

From Prof K. Alec Chrysal.
Sir, Tim Congdon is demonstrably wrong when he says (Letters, October 2) that "in the modern world of paper fiat money, value is conferred on a currency by the legal tender laws". A simple counter example is the situation in Scotland where the bank notes are not and never have been legal tender, even in Scotland, and yet there is no hint of an inefficiency in the Scottish monetary system.

Samuel Brittan had it about right when he described legal tender as an archaic concept (Economic Viewpoint, September 26). Legal tender status is certainly not a necessary condition for a successful currency.

Where Tim Congdon is right is in his argument that the euro cannot become the single currency for a transition period during which the old constituent currencies are still fluctuating in value against each other. The solution, as with the Scottish pound, is to make the constituent currencies *de facto* convertible into each other, costlessly, and at fixed and irrevocable round numbers.

From then on we have a single currency system in practice irrespective of whose head is on the notes, what the notes are called and whether or not the legal tender laws are updated. Samuel Brittan was talking about a different scenario in which the pound sterling is not tied to the euro currency and yet the euro trades in parallel. Certainly the Euro would be used for some trade (mainly with the rest of Europe) but

there is no reason to believe that it would be used any more widely in general circulation in England than are dollar bills or D-Marks today, or indeed are English notes in Scotland, that is, not much.

Only if the UK were to hyper-inflate would a flight to the external currency be stimulated. Hopefully, that is not a likely event.

K. Alec Chrysal, professor of monetary economics, City University Business School, Froisher Crescent, Barbican Centre, London EC2Y 8BB, UK

From Mr D M Harrison.
Sir, Delighted to read Samuel Brittan espousing the idea of a parallel euro in Economic Viewpoint - I in fact suggested much the same in a Commission seminar on Emu in Sweden in June.

If I might add to the point he makes, the great merit of such an approach would be that it would allow a transitional period to full Emu, during which the euro might become more widely acceptable.

This might well be a second- or third-best option, as he says - but it might also be better than the nervous breakdown which Martin Wolf currently diagnoses in the UK body politic ("The danger of dithering," October 1).

David Harrison, Little Thatch, Westcott, Talaton, E Devon EX5 2RN, UK

Space saving front-loader

From Mr John Keegan.
Sir, Richard Tomkins misses an important point in assessing the benefits of European-style front loading washing machines ("Frigidaire frontal assault puts US in a spin", October 1).

In contrast to a top-loading machine the front-loader may be permanently installed under a kitchen work surface. The generally smaller floor area of European households has

influenced the design of washing machines and dryers. In North America, houses are usually much larger and so these appliances do not need to be cramped into the kitchen. Also, most north American apartment buildings have common laundry facilities in the basement.

John Keegan, 51 Elm Drive, Hove, E Sussex BN3 7JA, UK

Whizzkids who reap where wealth creators have sown

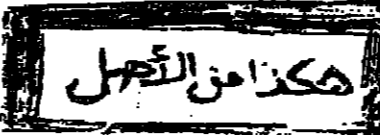
From Mr John Keegan.
Sir, Lucy Kellaway's concerns ("A distant view of corporate rivals", September 23) about the Henley findings on competitive, bad-losing, fast risers are well voiced.

May I forward a pet theory here? In all human activity there are those whose experience, knowledge, encouragement, nurturing and trusting of their associates spark creativity innovation and growth. Such people, I believe, are the real wealth creators in

communities and companies. Macho corporate whizzkids, on the contrary, are those who reap where others have sown. Perhaps they are needed to garner and sell goodies others have created, but their value should never be overestimated. Give all

the rewards to them and the wealth creators will fade away, followed soon by the wealth.

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FINANCIAL TIMES

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Hong Kong vision

Two points stand out from Governor Chris Patten's speech to the Hong Kong Legislative Council yesterday. One is his conviction that Hong Kong can have a glittering future as an Asian financial centre under Chinese rule. The other is his pointed assertion that the survival of a democratically elected LegCo, which commands the respect of the population, is central to the rule of law. Only with the rule of law is the future which he foresees possible. So his speech reveals a serious challenge for China.

They expect that Beijing will proceed circumspectly. Three decisions by China would help. One would be to delay the creation of the provisional LegCo for as long as possible before the handover, and to hold new elections quickly thereafter. Then China could not be accused of installing a parallel legislature before 1997 and running it as a puppet afterwards. The second would be to keep the composition of the provisional LegCo identical, or at least as close as possible, to that of the existing body. The third would be to reach an accommodation with the Democratic party, which constitutes the main opposition to communist Beijing rule. Since the democrats command more popular support than other parties, a permanent LegCo that excluded them would never be credible.

Closer bonds

Jacques Chirac voiced doubts this week about letting Club Med members such as Italy into the Eurozone - at least on the opening night. But investors are increasingly open to the idea that parts of the periphery will make it into monetary union's first wave. Their renewed confidence could have some interesting implications for European interest rates and currencies - and for Mr Chirac. Financial markets have been confident for some time that Euro would take place. Since April the gap between French and German bond yields has not exceeded a fifth of a percentage point. But the expectation was that it would be an Emu of the hard core.

budget promises, or, even, whether they will need to be allowed into Emu. In the meantime investors might have numerous attacks of cold feet. This kind of volatility could be costly for countries at the periphery. Yet the longer the markets' confidence in their Euro prospects lasts, the greater the chance that it will prove self-fulfilling. Italy stands to gain the most from lower interest rates, in reduced costs of debt servicing. But Portugal and Spain would also benefit. Of course, whether and how far interest rates fall will depend on each country's central bank. Many are betting that the Bank of Spain will oblige, by cutting its key intervention rate by a further one half of a percentage point at today's repo auction. If so, the Portuguese authorities are likely to follow close behind.

MPs for hire

In Britain, MPs are not for sale, but you can hire one at a reasonable rate to promote your interests. The rate varies, according to the Register of Members' Interests from only about £1,000 a year to £30,000 or more. This is not by itself objectionable. Britain has a long tradition of part time MPs, paid a relatively low salary and expected to bring experience of the world to parliament. In such a system it is not only reasonable, but necessary that MPs should have outside interests for which they are paid. It is also right that these interests should be reflected in what they say in the House, provided that they disclose payments and avoid all taint of venality. However, the line between legitimate lobbying and "cash for questions" has become blurred. The case of Mr Neil Hamilton, the Tory MP accused by The Guardian newspaper of receiving money to ask parliamentary questions has once again brought the distinction to public attention. Since Mr Hamilton withdrew his libel action against the newspaper at the last minute, it will be for Sir Gordon Downey, the parliamentary standards commissioner, to establish the facts. Whatever he finds in this case, there is evidence that some MPs have accepted cash, benefits, or contributions to election funds from people who wanted a favour in return.

Following the recommendations of Lord Nolan's enquiry into this issue last year, parliament voted for a series of measures to tighten up standards, including stronger disclosure rules and the appointment of the commissioner. Mr Hamilton's case may well prove to be the first big test of the new system. The allegations against him are extremely serious, as he recognised by bringing the action. It is therefore important that it should be given the opportunity to clear his name through parliament's own procedures, and most important of all, that he should suffer the consequences if the allegations are upheld. The case raises two wider questions. First, if a lobbyist tries to buy influence by putting money into the local party's collecting tin, this does not now have to be disclosed. Second, MPs do not have to list earnings which they claim are unrelated to parliamentary work. Both these loopholes should be blocked up. A recent opinion poll suggested that a majority of the public believed MPs should give up all outside paid work. It is possible to envisage a very different parliament of fewer, better paid MPs whose outside interests would be circumscribed. But for the British system as it has evolved, the best remedy must be full, compulsory disclosure - and a slippery slope ready for anyone with a greasy palm.

Winter of their discontent

Germany's unions are fighting to preserve a social welfare system which employers say is too costly, writes Wolfgang Münchau

Mr Heinz Weirich, a retired shipyard worker from Schleswig-Holstein in northern Germany, vividly remembers the winter of 1956. For 114 days, he and 60,000 colleagues in the steel industry were on strike in a battle that ended in one of the biggest victories for the German labour movement. Mr Weirich was the strike leader at the now defunct Kremersohn shipyard in Elmshorn, north-west of Hamburg. He recalls the cold days and nights out on the picket lines, cups of tea spiced with rum to keep warm, the financial hardship and the extended credit lines at the grocery. When the strike finished in February 1957, the unions had established the right to 90 per cent sick pay after three days of illness where there had been no arrangements before. Successive governments later enshrined parts of the agreement into law and by 1970 all employees were entitled to a full wage from the first day of illness. This week, however, German engineering workers have been back on strike over the issue, following a decision by some of the largest employers to cut sick pay entitlements to 80 per cent of wages. The move follows a change in German law, which took effect on Tuesday. On Tuesday, more than 100,000 engineering workers all over Germany staged strikes, with Mr Klaus Zwickel, president of IG Metall, the engineering union, invoking the spirit of 1956. More strikes are to follow, with most German trade unionists seeing full sick pay as the quintessential symbol of the welfare state.



existing labour contracts and that the change would apply only to new employees. That was also the intention of the Christian Democratic Union which is the dominant partner in the governing coalition and is anxious to avoid an open confrontation with the trade unions. For this reason, the unions did not oppose the measures strongly during their passage through parliament. But some employers have moved quickly to take advantage of the measures: they argue that employment contracts are based on the law, and that a change in the law implies a change in the contract. German legal precedents have been unhelpfully vague on this matter - previous rulings by the country's courts lend themselves to different interpretations. But the speed and the resolve of some German companies in seeking to use the rules to their own advantage have surprised ministers and drawn condemnation from politicians on the left and right. Chancellor Helmut Kohl has appealed to employers to honour existing contracts. Ms Renate Schmidt, leader of the Bavarian Social Democrats, warned of a challenge to the "whole system of democracy". And President Roman Herzog, normally a vocal proponent of social reform, advised employers to tread cautiously and not to endanger the social peace. Some companies have heeded the advice. Volkswagen, the car maker, refused to follow Daimler-Benz's lead, insisting it was not prepared to break current labour contracts. And Siemens, Germany's second largest industrial company, which originally said it would impose similar cuts, has now backedtracked. On Tuesday, it said that the cuts would not be implemented immediately. Employers' organisations are split over the issue. Those in the chemical industry, for example, have expressed concern that they may be affected by strikes that spill over from the engineering companies. BUN, the federation of young employers, has also questioned the wisdom of imposing the cuts so hastily. For the moment, Daimler-Benz, Germany's largest industrial group, is the main target for strike action. The company expects to save over DM140m through the cuts to sick pay, a sizeable amount even for a company of that size. But the strikes have already cost Daimler-Benz around DM200m in lost production - and there are more to come. The unions may find it hard to sustain the action, especially among younger Germans who are not as militant as the previous generation. As Mr Weirich, the former strike-leader, puts it: "They have only known the system as it is. They never had to fight for anything." But public opinion has swung firmly to the unions. And this week's strikes have been well-supported by members - including the young - at a time when their membership and influence have been in decline. In the past, trade unionists have shown greater cohesion during labour battles than the employers - one reason why the German social insurance system is what it is. By their haste to cut sick pay, some German employers have given IG Metall and other unions a new lease of life.

"After all we have been through," says Mr Weirich, "I have not the slightest doubt that the unions will call a strike again. It is absolutely incredible that the employers are trying to take away what we had fought for so hard." Daimler-Benz, the automotive and defence group, was the first large company to announce sick pay cuts. It is now the main target of protests, led by Mr Karl Feuerstein, head of the group's works council - in the past a docile body not known for its militancy. Mr Feuerstein says the country is becoming like "a banana republic" if companies such as Daimler are allowed to alter terms of employment for existing employees. The company, he says, is "in blatant breach of contract". The employers, for their part, see the generous sick pay system as the symbol of the welfare state gone berserk. Judging by their public statements, they are gearing up for a big confrontation. An official in one of the country's employers' federations says bluntly: "This palaver is not about the sick pay money we are going to save. This is a symbol saying that we are ready to act, that we have reached turning point." German employers operate in one of the most regulated and inflexible labour markets in Europe. Large companies must establish supervisory boards with almost equal proportions of worker and employer representatives. Many employees work exact seven-and-a-half hour shifts from Monday to Thursday, and five

hours on Friday. Some engineering factories close down for five minutes once every hour, a relic dating from an agreement made during the 1980s. But the sick pay system has become a symbol of the generosity of the German social welfare system which employers must pay for. Employees suffering from stress or backache are prescribed long breaks in mountain health resorts - a popular cure in a country known for its fondness for alternative medicine or even quack remedies. The costs of treatments such as water-treading and mud baths are largely paid for by employers since under German labour law, they do not count as holidays but as work. As well as bearing the costs of sick pay, employers also pay two-thirds of the contributions towards an employee's state pension contribution. They pay for half the cost of employees' health insurance, half the contribution to the unemployment insurance fund and as much again for the recently

introduced old-age care system. These non-wage employer costs add up to more than 40 per cent of the payroll bill. The German chemical industry recently calculated that the average cost of employing its workers is DM107,150 (\$70,500) a year, more than half of which is accounted for by indirect labour costs. The gap with other industrial countries is immense. According to 1994 data from IWO, the Cologne economic institute, German wage costs averaged DM43.97 per hour compared with DM27.97 in the US, DM22.06 in the UK and DM23.36 in the Czech Republic. Several smaller German companies have already moved production to countries in eastern Europe and Asia where labour costs are lower. Others such as BMW, the upmarket carmaker, and Siemens, the electronics group, are locating new investments in other countries. And Germany has found it harder than other European countries to attract foreign investors, deterred by the costs and a cumbersome

industrial relations system. It was the need to make Germany more attractive for employers that led the government to introduce the package of cuts in compulsory social insurance provisions which passed through parliament last month. In addition to the reduction in sick pay, the package also reduced the length of time employees are entitled to spend at a health spa from four weeks every three years to three weeks every four years. And it removed the statutory protection against dismissal for workers in companies with 10 or fewer employees. The intention, however, was to curb the costs of Germany's social welfare system without damaging the balance of industrial relations. Most Germans strongly support the country's consensus-based system, even if they are in favour of substantial welfare reform. The government's legal advisers said that employees would retain their rights under their

OBSERVER

Pfennig pinching

The German government's budget cutting efforts in the cause of monetary union are all very laudable, but shouldn't someone have told the country's Nato delegation in Brussels that everything has its limits? The other day, Reinhard Bettzwege, Germany's deputy ambassador at Nato, threw an Oktoberfest party at his house. The bash was notable not least for the generous support it drew from tobacco, beer, and champagne interests. A blue-and-white Bavarian flag fluttered outside the front door, and inside the Paulaner beer flowed. Guests were interrupted regularly by young women bearing trays of cigarettes. Meanwhile, photographers snapping the more prominent members of the assembled crowd took care to take in Mrs Monika Wulf-Mathies, the EU commissioner for regional policy. Bettzwege's original invitation in English and German mentioned his senior position at Nato and extolled the tradition of the Oktoberfest - but unaccountably failed to breathe a word about commercial sponsorship. Now it may be that the

German finance ministry thinks that the privatisation of government functions is a wonderfully painless way of reducing the public deficit. But the more traditionally minded German civil servants in Brussels - who know that all diplomats stationed abroad receive a generous entertainment allowance from the foreign ministry in Bonn - are wincing.

Rodent revenge

The spat between France and Italy concerning the latter's suitability as a candidate for the first round of Euro has goaded the mild-mannered Romano Prodi into deploying some very strange language indeed. Riled at French president Jacques Chirac's comments concerning the inconveniently weak lira, Prodi was heard to mutter: "We'll make them see green rats." An etymological obscurity, and these days used, if at all, on the football terraces, it seems to translate roughly as: "We'll show 'em". La Stampa, the Turin paper, yesterday helpfully provided the odd clue. Green rats were apparently painted on the fuselage of three Italian S79 fighter-bombers (one piloted by Mussolini's son Bruno) that contributed their bit to aviation history by flying from Rome to

Rio de Janeiro in 1958. Meanwhile, actions spoke louder than words for treasury minister Carlo Azeglio Ciampi, who cancelled his Air France flight home and re-routed himself via London on British Airways.

Rallying cry

Peter Costello, Australia's treasurer, has not been in the job very long. But the man who came in as a member of the Liberal-National coalition in March seems already to have won a rare distinction. With a bit of help from the local media, he yesterday became one of the very few Australian treasurers to have moved the US bond market. The trouble started when the Australian Financial Review - the country's main financial newspaper - ran an interview with Costello, who is in Washington for the IMF meeting. Costello had been in to see Alan Greenspan, and was reported as saying that the chairman of the US Federal Reserve saw no threat of inflation down the track. He also went on to observe that there didn't appear to be "any expectation at...the moment that (US interest) rates are going to rise". Such candour, while hardly

uncommon on the Australian political scene, was meat and drink to US bond traders who hang on Greenspan's every - and normally much more infrequent - word. Bond prices duly rallied. Back home, outspokenness remained the order of the day. Gareth Evans, former foreign minister and now shadow treasurer, was quick to indulge in some Australian hyperbole of his own. "After the appalling indiscretion that [Costello] committed in Washington... he's embarrassed us in the eyes of the world," he declared.

Testing times

Visitors to Hanoi who have pondered the life-threatening chaos of the local traffic will know how recent economic reforms have turned bicycle owners into motorbike racers and tree-lined boulevards into clogged thoroughfares. What they may not know is how the mandatory driving test works. Three foreigners examined recently learned something of the process, according to the Vietnam News. The trio were ushered into a room and handed a sheet of multiple choice questions on the Vietnamese highway code. The examiner then proceeded to tell them which answers to tick off - and promptly sent them home.

Financial Times

100 years ago The Siamese Railway Bangkok, 1st Oct. The entire capital of the projected railway between Bangkok and Petchaburi, on the East coast of the Malay peninsula, has been subscribed locally by the Siamese. The King will inaugurate the first sod of the new line on 1st of January next. (Reuter).

50 years ago Alberta "Bill Of Rights" Montreal, 2nd Oct. The Edmonton Appellate Division of the Alberta Supreme Court is deciding the validity of the legislation known as the "Bill of Rights" passed last session by the Government of Alberta. When the hearing opened, Mr G.H. Steer presented the Dominion Government's case, contending that the Bill was beyond the power of the legislature because it invades the fields of banking, currency, trade and commerce reserved exclusively to the Dominion. Conservatives' Conference Grave concern at Britain's financial and economic policy under the Labour Government will be expressed at the 67th annual conference of the National Union of Conservative Associations in Blackpool. The conference lasts until Saturday, when Mr Winston Churchill will address the delegates.

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Thursday October 3 1996

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Computer allies trade blows

By Louise Kehoe in San Francisco and Christopher Parkes in Los Angeles

Two of the staunchest allies in the fast-moving computer software business, Netscape and Oracle, have fallen out noisily. Mr Larry Ellison, chairman and chief executive officer of Oracle, the world's second largest software company, has said that Netscape has "no chance of surviving".

Netscape, the internet software company that set Wall Street records with its public stock offering last year, thinks Mr Ellison might be trying to talk down the Netscape share price. "He is talking down Netscape's stock because he wants to acquire the company," Jim Barkadale, chief executive of Netscape, said.

The row has startled software industry observers. Netscape is one of the most prominent supporters of the Network Computer, the cornerstone of Oracle's strategy to shift the focus of internet computing from the desktop to

Oracle chief executive is accused of talking down Netscape's stock ahead of takeover bid

central servers. Oracle and Netscape also collaborate broadly in supporting various standards and protocols for the Internet. What is more, they share a mutual and passionate rivalry with Microsoft, the software industry leader.

Yet at a recent industry conference in Paris, Mr Ellison predicted that Netscape's flagship product, the Netscape Navigator Web browser, was doomed.

"There will be no such thing as a browser in a couple of years," he said. By then, he said, central servers with sophisticated searching and electronic mail programs would overtake today's Internet software for desktop computers.

The Oracle chairman also ridiculed Netscape's successful 1995 stock flotation. The share price rocketed from an opening price of \$26 to \$174 in its first four months of trading. Mr Ellison declined to comment yesterday on Mr Barkadale's assertion that he aims to acquire Netscape, or to offer any alternative explanation for his attacks on the company.

Mr Ellison's remarks do not appear to have hit Netscape's share price. After hitting a low of \$34 at the end of August, shortly after Microsoft launched its competing Web browser, Netscape has rebounded to \$47 1/2 over the past month.

But Netscape fears it may now be an Oracle takeover target. Mr Barkadale thinks that Oracle wants to expand its role in the fast-growing market for Internet software and has identified Netscape as a means of achieving this.

Industry analysts say that Mr Ellison has craved a more prominent role in the software industry to match that of arch-rival Mr Bill Gates, chairman and chief executive of Microsoft.

Over the past year Mr Ellison has mounted a vigorous publicity campaign to promote the Network Computer, which he predicts will outsell personal computers by the end of the decade and undermine Microsoft's dominance in desktop computer software.

The acquisition of Netscape would make sense for Oracle. There is little overlap between the companies' products, industry analysts said. As the world leader in database software, Oracle is benefiting from the rapid growth of network computing and the Internet. However, its Web server and Web browser products have not made a big impact in the Internet software market.

While Oracle may have a motive and a strategic rationale for acquiring Netscape, it may not have the means. Netscape's market capitalisation stands at almost \$4bn. It might take as much as \$6bn to acquire the company, industry analysts estimate. Even for Mr Ellison, raising such a sum could be a challenge.

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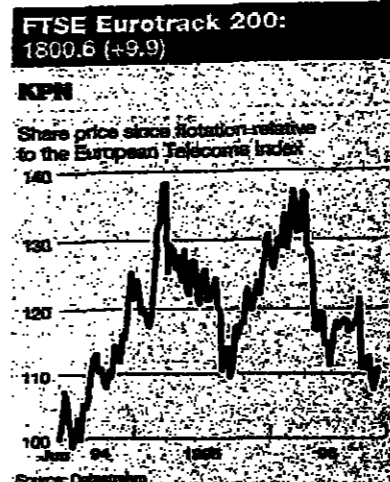
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THE LEX COLUMN

Dutch courage

KPN's A\$2bn acquisition of TNT makes strategic sense, but the Dutch telecoms and postal group is certainly paying a high price for the Australian express mail and logistics company. The merger of KPN's express mail business with TNT's will create the most extensive network in Europe. Longer term, the combination puts KPN - which is already active in bulk business mail - in pole position to benefit from the liberalisation of Europe's postal markets. Britain's Royal Mail, which has been urging its government to privatise it in order to meet such a competitive threat, must be feeling bitter.



The financial logic, by contrast, is less solid. KPN is paying 11 times operating cash flow and 19 times operating profits. True, the Dutch group should be able to cut costs by eliminating duplication. But these are still hefty multiples for a business with a chequered history. While TNT's European operations are performing well, there must be doubts about KPN's ability to manage the business in far-away Australia, the source of most of TNT's problems.

KPN's spending spree also raises the question of how long this telecoms/postal hybrid can remain intact. Not only are both businesses keen to expand, creating potential conflicts as they compete for capital, but investors find this strange combination hard to value, arguably pushing up its cost of capital. It is time to consider a demerger.

It is time to be buying commodities? Investment guru Jim Rogers thinks so. He is predicting a "multi-year explosion" in raw material prices. There is some evidence in his favour. Grain and energy inventories are respectively close to 68-year and 20-year lows. Returns are also perking up; this year the Goldman Sachs commodity index is up by 22 per cent, the S&P 500, by contrast, has risen only 13 per cent and the Merrill Lynch domestic bond index has fallen by 0.5 per cent.

The high GSCI figure may look curious. Energy has been very strong - with prices up by 41 per cent - but base metals are down by 16 per cent. Some other commodity indicators remain soft, and global inflation is subdued. This hardly squares with the popular mythology of commodity booms being stoked by feverish inflation expectations. But in fact, inflation is no prerequisite for a commodity rally. Rather, demand must be firm, and bottlenecks then typically provide the trigger for higher prices. This is precisely what has happened: strong growth in the US and non-Japan Asia drove food and energy inventories to very low levels. Bottlenecks then arrived in the form of very cold weather in the US, which drove up energy demand, while unseasonal early rains interfered with food supply.

Metals have missed out because of weaker demand in Japan and Europe. But with a modest pick-up expected, these prices should also benefit. A multi-year boom, though, looks to be expecting too much.

Additional Lex comment on Norwich Union, Page 20

French PM wins vote of confidence

By David Buchan in Paris

Mr Alain Juppé, France's embattled prime minister, yesterday won a parliamentary vote of confidence after his promised drive to lower the country's record unemployment level and outlined plans to strengthen democracy.

Mr Juppé had called the confidence vote at the start of a new parliamentary session to quell internal opposition. The 464-100 vote in his favour reflected the huge share of seats held by the centre-right coalition, but Mr Juppé won only a muted reception from his own backbenchers. In recent weeks, many contested the prime minister's social and economic measures. President Jacques Chirac has had to intervene to support Mr Juppé, warning rebels that they could not count on presidential support in 1998 parliamentary elections.

In a speech addressed more to his backbenchers than to the opposition, Mr Juppé said "perseverance would pay off and that 1997 would be a year of improvement". He welcomed the fall in long-term French interest

rates to an "historically low" level of around 6 per cent, and forecast they "could even drop below this threshold". Mr Juppé said: "Monetary stability is ensuring the decrease in interest rates and making credible the march towards the single [European] currency."

Mr Juppé conceded the August rise in job-seekers, which brought unemployment to a record 12.6 per cent of the labour force, was "unacceptable". He proposed to launch a new "decentralised plan of action for jobs", involving local and central government.

Mr Laurent Fabius, floor leader of the opposition Socialists, accused the government of "falling on the essentials - employment, the economy, industrial relations, and preparation of the [country's] future".

Mr Juppé said he would strengthen democracy by simplifying state bureaucracy, involving citizens more in decision-making and reinforcing the presumption of innocence in French law.

Paris soothes Italian anger, Page 2 Editorial Comment, Page 13

Opposition urges Yeltsin to resign

By Chrystia Freeland in Moscow

Russia's opposition politicians stepped up their calls yesterday for President Boris Yeltsin's resignation, warning that his prolonged hospitalisation was threatening to plunge the country into chaos.

But Mr Anatoly Chubais, the president's chief of staff, launched a swift counter-offensive, insisting that the government could function smoothly despite the temporary absence of his chief.

Similar assurances from Kremlin officials over the past few weeks appear to have done little to assure the Russian public.

In a monthly rating of the country's most influential politicians published yesterday in *Nesavisimaya Gazeta*, a Russian daily, the president dropped to third place, behind Mr Victor Chernomyrdin, prime minister, and Mr Alexander Lebed, security chief.

Both men, along with Mr Yuri Lushkov, mayor of Moscow, and opposition leaders are believed to be positioning themselves ahead of a possible election race to succeed

Mr Yeltsin. Mr Chubais, who has compared Mr Yeltsin to Peter the Great, sought to scotch these bids, warning that politicians who launched premature campaigns to succeed the ailing leader would get their coup d'état when Mr Yeltsin recovered from heart surgery.

"Very soon it will be clear this is a false start and those who started too early will have to return to the starting line under the alert gaze of the ultimate referee - President Boris Yeltsin," Mr Chubais said.

However, his admonition did not deter Mr Gennady Zyuganov, the Communist leader who was defeated by Mr Yeltsin in the July presidential ballot.

Mr Zyuganov said that the president's illness had paralysed the government at a time when looming national problems, including a backlog of unpaid wages said to exceed \$7bn, required urgent action.

"The government is unable to resolve a single question. If things continue in this way Russia will repeat the fate of the Soviet Union," Mr Zyuganov said on the first day of the parliament's autumn session.

Beijing warned over plans for Hong Kong legislature

Continued from Page 1

interference. He added: "My anxiety is not that this community's autonomy would be usurped by Beijing, but that it could be given away bit by bit by some people in Hong

Kong." One example which prompted concerns was the lobbying by Hong Kong business groups seeking to win mobile telecommunications licences in the territory.

Mr Patten's address - in part a defence of his record

during his tenure - came under fire from some legislators, who said the governor and Britain had not gone far enough in defence of its institutions.

"Britain is doing sweet nothing and we are angry,"

said Ms Emily Lau, an independent legislator.

Mr Martin Lee, head of the Democratic party, demanded Britain pledge to take China to the international courts should it proceed with plans to scrap the legislature.

FT WEATHER GUIDE

Europe today
The Benelux, Germany and Poland will remain dry with sunny spells. Most of Scandinavia will be dry and calm although southern Norway will have some rain. The British Isles will have showers and some heavier rain. France and the Mediterranean will have plenty of sunshine. Spain will be sunny. Italy will have sunny spells, with rain in the south. The Alps will generally be fair with sunny periods. The Balkans and Greece will be cloudy with some thunder showers.

Five-day forecast
The rain and wind over Great Britain will move into western Europe by the end of the week. At the end of the weekend, a new front will bring more rain. The Mediterranean will have plenty of rain.

TODAY'S TEMPERATURES

Maximum	Beijing	showers 31	Fero	sun 25	Madrid	sun 22	Rangoon	cloudy 33
Minimum	Cebu	rain 14	Frankfurt	sun 15	Manila	sun 21	Raykivik	showers 9
	Belfast	showers 17	Geneva	sun 18	Moscow	showers 24	Rio	sun 27
	Bogota	thund 20	Glasgow	sun 12	Mumbai	rain 11	Rome	showers 21
	Berlin	fair 15	Hamburg	sun 15	Nairobi	showers 23	S. Francisco	sun 22
	Bombay	fair 20	Helsinki	sun 28	Naples	showers 19	Seoul	rain 23
	Buenos Aires	sun 28	Hong Kong	showers 30	Nassau	showers 17	Singapore	showers 31
	Calcutta	sun 35	Honolulu	showers 30	New York	sun 19	Stockholm	sun 12
	Cairo	sun 35	Istanbul	cloudy 31	Nice	sun 20	Sydney	sun 22
	Cebu	sun 31	Jakarta	sun 22	Osaka	sun 29	Taipei	sun 21
	Chicago	sun 18	Jersey	showers 16	Paris	sun 17	Tokyo	sun 21
	Colombo	sun 28	Karachi	sun 25	Perth	cloudy 23	Winnipeg	sun 9
	Dakar	sun 31	Kuala Lumpur	sun 28	Prague	sun 13	Zurich	sun 15
	Dallas	sun 28	L. Angeles	sun 24				
	Delhi	sun 35	Las Palmas	sun 25				
	Dubai	sun 35	Lima	cloudy 18				
	Dublin	rain 15	Lisbon	sun 25				
	Dubrovnik	thund 21	London	showers 18				
	Edinburgh	rain 16	Luxembourg	sun 15				
			Lyon	sun 19				
			Madrid	sun 23				

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Melsio Coraout of the Netherlands

Warm front, Cold front, Wind speed in KPH

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FINANCIAL TIMES COMPANIES & MARKETS

Thursday October 3 1996

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IN BRIEF

UK life insurer plans 1997 float

Norwich Union is to become the first UK life insurer to abandon mutual ownership in a flotation on the London stock market next year which would raise an estimated £2bn (£3.1bn) in new money. Page 20; Lex, Page 20

Erna optimism lifts Italian bond prices
Italian government bond prices rose sharply and the lire strengthened amid growing expectations that the country could be among the first to join in European Monetary Union. The yield spread over German 10-year bonds - the risk premium charged by investors for holding Italian debt - fell to its lowest level for 20 years. Page 22

UPM-Kymmene considers US listing
UPM-Kymmene, Europe's largest pulp and paper group, is considering a New York listing as part of a strategy to raise its profile in the North American market. Page 16

Summer weakness hits Morgan Stanley
Third-quarter earnings at Morgan Stanley, the US investment bank, fell to \$1.27 per fully diluted share from \$1.75 in the second quarter. Page 19

Car makers shape up for future
The aluminium industry heralded its latest breakthrough - the drinks can that does not look like a can. Page 24; Aluminium demand expected to pick up, Page 24; Pechiney protests, Page 18

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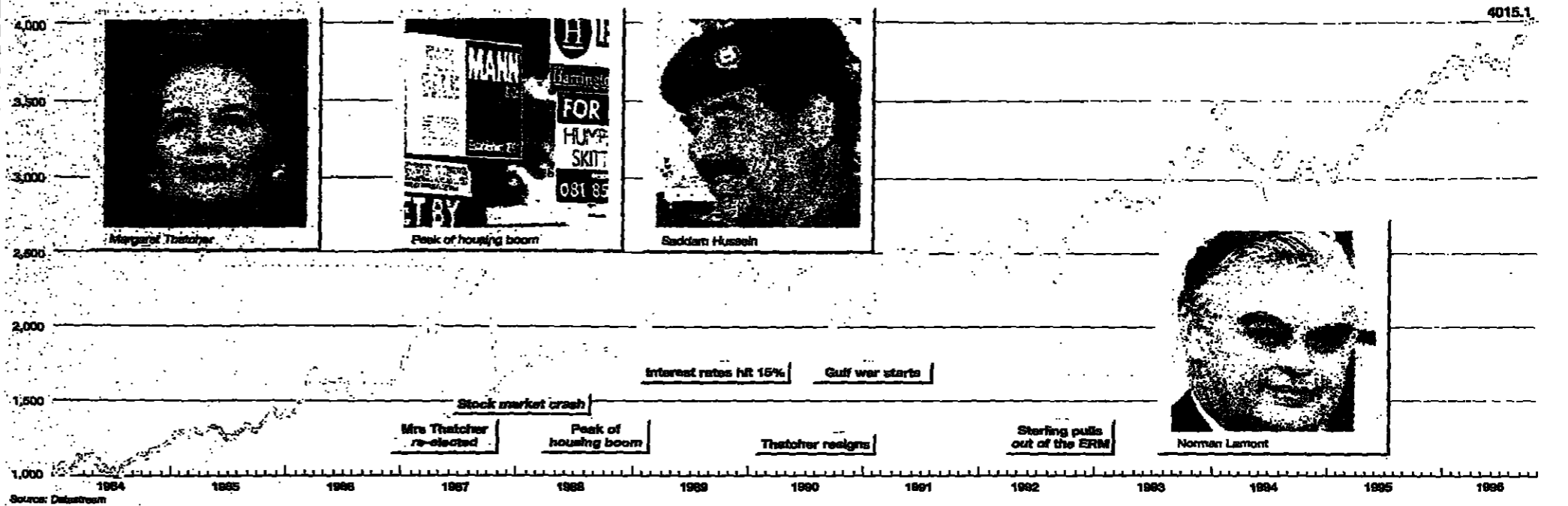
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Chief price changes yesterday

FRANKFURT (DM)		Accor	609	+ 13	
Alcoa	1344	+ 74	Carrefour	2320	+ 48
Boisjoly	594	+ 15.5	Lafarge	303.7	+ 5.7
Comptel	32.8	+ 1.25	Peugeot	582	+ 8
Deutsche	540	+ 13	Pharm		
Elf	262.5	+ 8.3	SSE-Thomson	221.8	+ 12.2
Genetec	659	+ 31	TOKYO (Yen)		
NEW YORK (\$)			Daifuku	606	+ 14
Alcoa	33.9	+ 2.9	Daifuku	2000	+ 50
Duke & Pate	29.4	+ 2.9	Marubeni	1350	+ 30
East USA	44.6	+ 2.4	Nachi	504	+ 24
Outday			Nachi Fgl		
Pharm			Pharm		
Deutsche	21	+ 2.6	Pfizer	2110	+ 50
Lyell	21.6	+ 2.6	Pfizer	2110	+ 50
US West	20.1	+ 1.7	HONG KONG (HK\$)		
LOS ANGELES (Dollars)			Alcoa	2.55	+ 0.20
Alcoa	80.6	+ 1.8	Chino Travel	4.375	
Chubb	75	+ 7.4	Orion Press		
Bank One	330	+ 15	Praxair	1.35	+ 0.25
Boisjoly	254	+ 11.6	Verde PPT	15.80	+ 1.25
Pharm			Web Tech	2.00	+ 0.28
Bank One	81.6	+ 10	Pharm		
Theray Rotor	110.4	+ 15.6	Pharm		
TOKYO (\$)			Pharm		
Alcoa	41.10	+ 2.60	Pharm		
Chubb	28.00	+ 2.00	Pharm		
Bank One	26.30	+ 2.15	Pharm		
Pharm			Pharm		
Pharm	20.00	+ 1.00	Pharm		
Pharm	17.00	+ 1.00	Pharm		
Pharm	36.00	+ 2.00	Pharm		
PARIS (FFr)			Pharm		
Alcoa	148	+ 3.5	Pharm		
Pharm			Pharm		

New York & Toronto prices at 12.30.

FTSE 100 Index: up, up and away



UK index breaks through 4,000 barrier

By Philip Cogan, Markets Editor

London's FTSE 100 index surged past 4,000 for the first time yesterday as global equity markets continued to prosper in the light of low inflation and interest rates.

Markets in Amsterdam, Brussels, Copenhagen, Dublin, Frankfurt, Istanbul and Oslo recorded all-time highs yesterday, while on Wall Street, the Dow Jones Industrial Average edged closer to 6,000, reaching 5,927.26 by 1pm New York time.

The UK's leading index, which tracks the top 100 companies, leapt past 4,000 at the opening bell and stayed ahead of it all day, recording on the way an all-time intra-day high of 4,016.4 and a closing peak of 4,015.1. Footsie, which was launched at 1,000 at the start of 1984, first passed 2,000 in March 1987 and 3,000 in August 1993.

World markets stumbled in July, when investors feared that the US Federal Reserve was about to raise interest rates. But the Fed left interest rates unchanged at both its August and September meetings, allowing markets to rally around the world.

"It is largely a story of liquidity. Interest rates are low round the world, in some cases, such as the US and the UK, inappropriately so, and the cash is flowing into the equity market," said Mr Mark Brown, head of strategy and economics at brokers ABN Amro Hoare Govett.

Bond markets have also been strong, with European government bonds benefiting from hopes of currency union. High-yielding markets, such as Spain and Italy, have seen yield spreads over German government bonds fall sharply.

Even though the UK seems unlikely to join currency union, gilts are enjoying some

of the benefits of the strong international bond market. According to Mr Steve Wright, UK strategist at BZW, the investment bank, index-linked gilt yields are at their lowest since 1994. As a consequence, share prices do not look expensive relative to bonds.

The UK's investment institutions are flush with cash, partly because of their caution about the market earlier in the year, and partly, according to Mr Bob Semple, equity strate-

Eurotunnel board looks at refinancing package

By Andrew Jack in Paris and Geoff Dyer in London

The board of Eurotunnel, the troubled Anglo-French operator of the Channel tunnel link, was meeting last night to approve a refinancing plan for its £2bn (£1.4bn) debts which it agreed with its leading banks in a last-minute deal which will save the group from bankruptcy.

The meeting came ahead of the preparation of a final draft of the agreement which is due to be circulated within the next few days. The terms, which were approved on a handshake but have not yet been formally signed, will be submitted by the steering committee of six banks to the 24 "instructing banks" for discussion tomorrow.

Ratification of the agreement by both sides is expected to lead to an announcement of the terms of the deal on Monday, with trading in Eurotunnel's shares resuming the following day.

An adviser to Eurotunnel said last night: "The group will not be embarrassed to announce this deal to shareholders, but there will be lots of people who will be disappointed. It was a reasonable

compromise, with concessions on both sides." Mr Jean-Pierre Mattel, president of the Paris commercial court which has been monitoring negotiations, said yesterday that Eurotunnel and its bankers had reached agreement on the principles of a plan.

"Today, the future of the company is assured. The shareholders no longer have

US funeral group raises bid for Canadian rival

By Bernard Simon in Toronto

Service Corporation International, the world's biggest funeral operator, yesterday turned its battle to take over Loewen Group, its rival, into a hostile bid.

The US company raised its all-share offer for Vancouver-based Loewen by US\$2 a share to a total of US\$2.7bn. Last month, Loewen dismissed SCI's unsolicited US\$2.5bn takeover proposal.

The new SCI offer appeared to portend a protracted battle, with the Houston-based company seeking to rally Loewen shareholders against Mr Ray Loewen, the Canadian group's founder and chief executive.

Loewen said it would review SCI's offer. But Mr Loewen, who holds 15 per cent of Loewen's shares, earlier left no doubt that he planned to fight a takeover tooth and nail.

SCI's latest offer of \$45 a share was lower than analysts expected. "This is going to be a long drawn-out process," said Mr George Kellner, a New York arbitrator. "Everybody thinks [the price] has got to have a five in front of it before

Jardine Fleming loses big HK fund

By John Ridding and Louise Lucas in Hong Kong

Jardine Fleming's fund management arm has lost an account worth an estimated HK\$800m (US\$103m) from one of its most famous clients following the revelation of a trading scandal at the Hong Kong investment bank.

The Hong Kong Jockey Club, which has a monopoly on gambling in the territory, said yesterday it was withdrawing one of the three funds it had with Jardine Fleming.

The move comes as it seeks to stem an outflow of funds and recover from revelations in August that Mr Colin Armstrong, a fund manager, had diverted profitable client trades to his own account.

Mr Paulus Lee, jockey club finance director, said two other accounts would remain with Jardine Fleming but be kept under review. He said reforms implemented by the bank appeared positive.

A senior Jardine Fleming official has said between US\$50m and US\$100m had been withdrawn from the fund management arm since the affair, while an estimated HK\$3bn was considered vulnerable. However, the company, which has about US\$21bn under management, expected more than US\$1bn in new funds from Japanese clients.

The Jockey Club said the withdrawal was a result of the trading scandal. "When we notice anything irregular then we need to review our own situation," said Mr Lee. "We are sending a signal not just to Jardine Fleming but to other fund managers as well."

He said the Jockey Club had not been invested in the three funds disadvantaged by Mr Armstrong, who has since left.

Light at the end of the tunnel, Page 17

nothing, they will receive something," he said.

The news met with a mixed reaction from the various associations representing Eurotunnel's shareholders. Mr Maurice Page, one of the organisers of the Association of Eurotunnel Shareholders, said: "I don't see who would have benefited apart from the lawyers" from the group passing into some form of insolvency proceedings, the alternative to an agreement.

He said he drew some reassurance from recent statements by Mr Patrick Ponsolle, Eurotunnel's chairman, that the group would not agree to a deal against the shareholders' interests. But he stressed he was waiting to see the details before making any judgment.

Mr Jean Salwa, deputy head of Adacte, the more extreme shareholders' group, said he would have preferred the commercial court to have taken control of Eurotunnel, and that the agreement meant no action would now be taken against the group's bankers, which faced important conflicts of interest.

Negotiations between Eurotunnel and its bankers ran continuously since September 26, with a session ending at 5am on Tuesday before final differences were agreed on a handshake after 6pm on Tuesday.

It emerged yesterday how close the group was to bankruptcy. A senior banker from one of the leading creditor banks admitted that over the past few days he had considered bankruptcy was the more likely outcome. He added that the provisions made against the Eurotunnel loan would now probably be sufficient.

An extraordinary general meeting to vote for the plan is unlikely to be held before March, because it must wait for publication of the group's full-year results.

Endesa puts \$1bn Chilean power deal on hold

By Tom Burns in Madrid

Endesa, the Spanish utility, has temporarily abandoned a \$1bn acquisition in Chile that would have gained it a big platform in Latin American electricity generation and distribution.

The acquisition had centred on the purchase of Spain's dominant generating group of a controlling stake in Enersis, the holding company which controls Endesa (Chile), the country's main electricity sup-

plier, and has masterminded its expansion into Peru and Argentina.

Figures close to the talks yesterday said both sides had agreed "to walk away" from the negotiations but the deal had not irrevocably broken down.

"They had given themselves a time frame to complete the deal and when the time was up they agreed to retire to their winter quarters," they said.

The failure to complete the

\$286.5m last year building up generation and distribution assets. Had the negotiations been successful, the Spanish group would have become the dominant foreign electricity company in Latin America.

The main problem was said not to be price - which would have been in the \$900m-\$1.1bn range - but the details of the partnership between the two utility companies and, in particular, the complexity of Enersis' shareholding structure. Endesa, which was advised by

the Madrid merchant bank Santander Investment, had hoped to gain control of Endesa (Chile) by buying into portfolio companies, or chispas, which have big stakes in Enersis.

However, the share price of the chispas, which were created by employees in Chile's electricity sector at the time of the domestic industry's privatisation, became extremely volatile last month as the negotiations entered their final round.

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COMPANIES AND FINANCE: EUROPE

UPM-Kymmene eyes listing on Wall Street

By Greg Mohr in Helsinki

UPM-Kymmene, Europe's largest pulp and paper group, is considering a New York listing as part of a strategy to raise its profile in North America.

Mr Juha Niemelä, chief executive, said in an interview that the Finnish group was "actively considering" floating its shares on Wall Street, although no decision had been taken and there was as yet no timetable.

"It is a possibility... we want to be in the world's biggest capital markets and we must be known there. [A listing] is the best way of getting known," he said.

The move would be a logical step for UPM-Kymmene, formed one year ago by the merger of Finnish rivals Repola and Kymmene. As the world's leading magazine paper producer and fourth

largest in newsprint, its closest competitors are located chiefly in North America.

UPM-Kymmene is currently listed in Helsinki and is traded in London via the Seaq International system.

Mr Niemelä said the group was examining the option of a share buy-back as a method of improving shareholder value - a device which had particular merit in an industry as cyclical as pulp and paper.

UPM-Kymmene would be studying the outcome of Finnish government plans to make share repurchases more advantageous for companies.

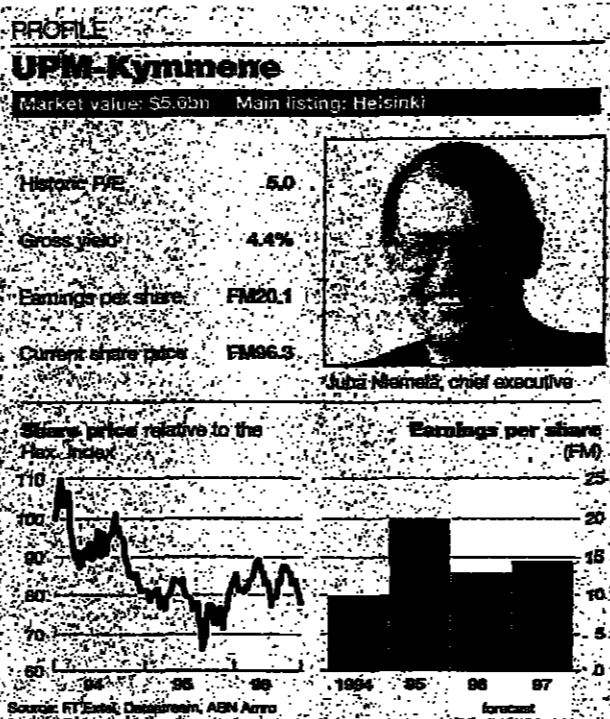
Outlining the company's strategy, he said an important priority was to improve the balance sheet. The group's financial position has been enhanced by a reduction in working capital and some debt restructuring

following the merger, but gearing of 105 per cent remains high.

"I would like to see gearing levels of 70 per cent. Our US competitors are well under 100 and the best is close to 50," Mr Niemelä said, adding that he wanted to raise the group's return on capital from the current 13 per cent to an average 15 per cent over the pulp and paper cycle.

Weak demand and soft prices for pulp and paper grades are expected to push UPM-Kymmene's earnings lower in the second four months of the year, compared with the first four-month period. Metsä-Serla, one of UPM-Kymmene's two big Finnish competitors, warned last week that it would make a loss for the May to December period.

Mr Niemelä said it was still unclear when the pre-



dicted return in the industry would take hold, and he did not expect the recovery to be rapid.

But he said there had been "promising indications" of

stabilising pulp inventories in North America, and there was a good chance that pulp price increases planned to take effect this month would prove sustainable.

US trader turns his sights on Siparex

By Andrew Jack in Paris

A leading US arbitrageur and his French investment partner yesterday announced they had acquired a significant holding in a French financial services company, in an effort to improve return to shareholders.

Mr Guy Wyser-Pratte said he and Verneuil Finance had acquired more than 10 per cent of the shares in Siparex, a Lyons-based venture capital company, with the aim of forcing it to buy back some of its shares.

The action comes after he said last week that he had bought more than 6 per cent of the shares in Strafor-Facom, a diversified office equipment and engineering group based in Strasbourg.

Mr Wyser-Pratte said he wanted Siparex to use some of its surplus cash to buy back one-third of its shares at FF150 each, to reduce the significant discount at which they are currently trading to its net asset value of FF159.

He also said he was pushing for Siparex to change its legal statutes from a "commandite en action" into an ordinary "société anonyme" company.

Mr Dominique Nouvellet, chairman of Siparex, said last night he was "serene" about the bid and was always willing to talk to shareholders. But he stressed that in the long-term it was far better to reinvest cash in new investments than to reimburse shareholders.

He also emphasised that any change in strategy would have to be approved by the shareholders in Siparex Associés, which runs the group through its "commandite" status, and which include Michelin and Peugeot.

Mr Wyser-Pratte has built up a reputation in a number of proxy battles in the US designed to increase shareholder value, and was involved in the takeover battle for Northern Electric, the UK utility, in 1985.

He has also been involved in a number of deals in France in recent months, including two attacks on CIP, a quoted investment company controlled by Banque Nationale de Paris, and an abortive attempt to raise the takeover price offered by Paribas in its bid to acquire the holding company Navigation Mixte.

His latest campaign began when he announced last week that he had taken a stake in Strafor-Facom with the idea of forcing the group to split into two separate quoted companies, inspired by the demerger earlier this year of Chargeurs, the textile and media group.

EUROPEAN NEW DIGEST

NCM in Danish export credit deal

The big Dutch credit risk insurer, Nederlandsche Credietverzekering Maatschappij (NCM) is to take control of the Danish state's export credit risk company, EKR Kreditforsikring, from January 1 1997, according to an agreement between the state and the company. NCM acquired a 25 per cent stake in EKR in April last year. The agreement is subject to parliamentary approval and no financial details were released.

EKR was set up in the 1980s to take over commercial export credit risk from the government's Export Credit Fund, which continues to cover business carrying a political risk. EKR has premium income of about Dkr150m (\$25.6m). The Dutch insurer also has companies in Sweden and Norway.

Hilary Barnes, Copenhagen

Israel threat to British Airways

Israel's Civil Aviation Authority (CAA) is threatening to take legal action against British Airways as El-Al, the national airline, faces an increasingly intense price war with foreign carriers. The CAA's threat was made after British Airways earlier this week offered a promotion package giving passengers a second ticket at half price for certain destinations. Earlier, Arkia, Israel's domestic carrier, had announced a promotion offering passengers two tickets to London for the price of one.

British Airways, which this year became the second-largest foreign carrier to Israel after TWA, said it was surprised by the CAA's decision and insisted it "always acts in accordance with the regulations". The CAA had threatened to take legal action a year ago - again over pricing policy - but dropped the threats. However, the price war has intensified recently as airlines have striven to fill empty seats. El Al is expected to report profits of \$40m this year against \$15m last time.

Judy Dempsey, Jerusalem

Austrian insurers to merge

A merger between the Austrian insurers Bundesländer and Austria-Collegialität will create Austria's largest insurance group with annual premium income of Sch282m (\$3.6bn). The supervisory boards of the two companies have approved a proposal to set up a joint holding group at the beginning of next year. Bundesländer's shareholders will own 51 per cent of the new holding company, even though it is nearly three times as large as Austria-Collegialität. But Bundesländer has been financially troubled in recent years and was eager to find a partner ahead of the full liberalisation of the European insurance market.

Bundesländer is currently majority-owned by the large Raiffeisen co-operative group, but also has some preferred non-voting shares outstanding. Austria-Collegialität is itself the product of a merger of two mutual insurers.

Austria's dominance in the new group is also reflected by the fact that its chairman, Mr Herbert Schimetschek, will be the head of the new holding company.

Eric Frey, Vienna

Heavy demand for Cimpor offer

Demand for a secondary global offering of Cimpor, Portugal's biggest cement company, is even greater than for a record-breaking offering of Portugal Telecom in June, bankers said yesterday. At the end of the first week of pre-registration for the domestic retail tranche alone, more than 70,000 individuals had placed orders for more than 68m shares. A total of 37.2m shares are being sold, of which about 55 per cent are being offered directly to international institutional investors.

Peter Wise, Lisbon

Carrefour sales ahead 5.7%

Carrefour, the French retail group, said it posted sales of FF124.6bn (\$24.1bn) in the nine months to September, up 5.7 per cent from a year earlier. Sales in France were FF73.9bn, up 2.5 per cent.

AFX News, Paris

Valeo shows growth

Valeo, the French automotive components group, posted sales in the first nine months up 16.7 per cent to FF21.5bn (\$4.2bn). Sales rose 12.8 per cent on a like-for-like constant-consolidation basis in the first nine months versus the same period of 1995, after a first-half rise of 10.7 per cent.

Reuters, Paris

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Pechiney employees fight cost-cutting

By David Owen in Paris

Yesterday, the lunchtime peace and quiet of La Défense, the futuristic commercial district of Paris and home to many of France's largest companies, was shattered by 1,000 or more Pechiney employees. They were demonstrating against the aluminium and packaging group's cost-cutting programme.

The cuts - known as project Challenge - aim to remove FF4bn (\$774m) from the company's cost base by the end of 1998, equivalent to about 20 per cent of overall costs excluding raw materials. They will lead to a reduction of between 4,000 and 5,000 in the company's 37,000 worldwide staff and a 17 per cent

reduction in the wage bill. Management says this would put the group's earning capacity on a par with that of its strongest competitors.

Ms Melanie Hucherard, analyst with Goldman Sachs, says Pechiney's performance is "significantly behind" its main North American rivals on an operating margin basis. In 1995, these competitors achieved margins "in the low teens", against just over 5 per cent for Pechiney.

But Ms Hucherard is confident the aims of the Challenge project will be achieved. She says this would allow the group to catch up with the North American producers, assuming they make efficiency improvements of their own of no more than an average of FF500m a year.

In scenes that are becoming familiar across the country as broad swathes of commerce and industry restructure to improve competitiveness, the demonstrators marched rowdily from the late President François Mitterrand's Grande Arche to Pechiney's squat headquarters, banging oil drums and dropping firecrackers.

Once assembled in front of the building, men and women in grey smelter suits used cardboard stencils to spray-paint hundreds of human outlines on the ground in representation of those they said would lose their jobs.

"Long live Riquieroux" was daubed in red paint on the company's front door - a reference to the

solitary French plant expected to close as a result of the cuts. There were inevitably chants for the resignation of Mr Jean-Pierre Rodier, Pechiney chairman.

They had come from all corners of France, reflecting the broad geographic spread of the company's main production facilities, leaving by coach and train from Alsace and Anney as early as four in the morning.

Their determination should act as another warning to hard-pressed government ministers of how carefully they will have to tread in overseeing the reshaping of France's industrial landscape at a time when the jobless rate is at a record 12.6 per cent.

KGHM facing rough ride to market

Political tension, union opposition and weak prices threaten copper group's float

The privatisation of KGHM, the Polish copper producer, is set to be stormy. The sale, Poland's biggest, is being buffeted by opposition from unions - which want to block wage cuts - and weak copper prices.

Earlier this week, the advisory team - UBS, BZW and the Polish Wielkopolski Bank Kredytowy - signed a final contract putting the privatisation on track.

However, the public offer, which is expected to see about a quarter of the company's equity placed on stock exchanges at home and abroad, risks becoming a hostage to political tensions.

Ultimate responsibility for the sale, expected to value the company at about \$1.5bn, lies with Mr Mirosław Pietrewicz, the head of the state treasury. He is a mild-mannered economist from the

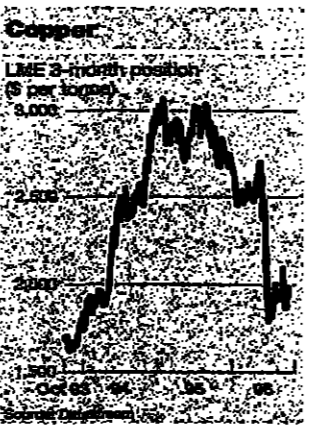
Polish Peasant party (PSL), which has shown little enthusiasm for privatisation to date.

Mr Wiesław Kaczmarek, the outgoing privatisation minister, has agreed to serve as his deputy with responsibility for privatisation in the treasury, which will also oversee state-owned companies. He has been pushing for the KGHM sale.

Politics is already rearing its head at KGHM itself, where the workforce is split between the Solidarity and the former communist OPZZ unions.

The unions are jockeying for shop-floor support by threatening to block management's restructuring efforts. Demands for wage rises greater than the 21.8 per cent increase promised this year to match inflation are also being voiced.

The low copper price, presently at \$1,950 a tonne com-



parated with an average of \$2,937 last year, leaves KGHM management, led by Mr Stanisław Siewierski and Ms Katarzyna Muszkat, the chief financial officer, with no spare funds to raise wages - which account for about 30 per cent of costs. Last year the company and its subsidiaries reported net

profits of 513.7m zlotys (\$188m).

The management's strategy is to put all services - except the main mining and smelting operation at KGHM's three mines and two smelters - into separate KGHM subsidiaries.

Employees in the subsidiaries no longer benefit from the generous KGHM employees' collective wage agreement. This agreement had taken the average gross wage at the company to 1,960 zlotys a month - more than twice the national average.

The restructuring also gives KGHM management the option of bringing in outside contractors, to do cleaning work for example, if they can compete on price with the new service companies.

"Up till now, because of

the collective wage deal, we've had office cleaners on miners' pay scales," says Mr Stanisław Krajewski, the management member responsible for the restructuring.

Employment at KGHM has fallen from 41,000 to 27,000. At the same time, 15,500 people work in the subsidiaries.


KGHM management now plans to push at least a further 3,500 people into the new units, and it is this which the unions want to block.

Already the 1,760-strong transport department has voted to resist being turned into a separate company.

In response, management has warned that politically explosive lay-offs are the only alternative to the restructuring plan.

Christopher Bobinski

ATCO



Craigston Tve

ATCO Ltd & Canadian Utilities Limited announced today that their respective Boards of Directors have appointed Craigston Tve President and Chief Operating Officer.

The appointment is effective October 2, 1996, following the retirement of Dr. John Wood. Mr. Tve replaces Dr. Wood, who has been President and Chief Operating Officer of ATCO Ltd since 1994 and President & Chief Executive Officer of Canadian Utilities Limited since 1984.

Mr. Tve joined Alberta Power Limited, one of the ATCO Group, in 1959 as an electrical engineer. In 1986, he was named president of Alberta Power. In 1994, Mr. Tve became Executive Vice President, Canadian Utilities Limited, Alberta Power's parent company and in 1995 he was appointed Executive Vice President, ATCO Ltd & Canadian Utilities Limited, Office of the Chairman.

The ATCO Group, with assets of more than \$4.3 billion and annual sales of \$2.7 billion, is involved in electric power, natural gas operations, facilities management and wastewater handling.

Please see prospectus for the terms of the securities offering and the offering process.

Minimum Investment: £10,000

Investment Price for First Shares to be Traded: £10.00

10 Year	5 Year	3 Year	1 Year
0100	11.71	8.89	8.89
0150	11.71	8.89	8.89
0200	11.71	8.89	8.89
0250	11.71	8.89	8.89
0300	11.71	8.89	8.89
0350	11.71	8.89	8.89
0400	11.71	8.89	8.89
0450	11.71	8.89	8.89
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0700	11.71	8.89	8.89
0750	11.71	8.89	8.89
0800	11.71	8.89	8.89
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0950	11.71	8.89	8.89
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2150	11.71	8.89	8.89
2200	11.71	8.89	8.89
2250	11.71	8.89	8.89
2300	11.71	8.89	8.89
2350	11.71	8.89	8.89
2400	11.71	8.89	8.89

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WWF

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Application has been made to the London Stock Exchange for the whole of the ordinary share capital, issued and to be issued, of Middlesex Holdings plc ("the Company") to be admitted to the Official List of the London Stock Exchange. The Company's ordinary shares of 0.25p each are currently traded on the Unlisted Securities Market. The sponsor to the Admission is Deloitte & Touche Corporate Finance. It is expected that admission to the Official List will become effective and that dealings will commence on 28 October 1996.

MIDDLESEX HOLDINGS PLC

(Incorporated in England and Wales)

Admission to the Official List

Sponsored by Deloitte & Touche Corporate Finance and

Proposed acquisition of Wolff Steel Limited

Authorised		Issued and fully paid	
£	Number	£	Number
2,800,000	1,120,000,000	1,925,066	770,026,546

Middlesex Holdings plc is a diversified international company with core businesses in primary industries and with interests in emerging economies.

Copies of the listing particulars relating to Middlesex Holdings plc may be obtained, during normal business hours up to and including 4 October 1996, for collection only, from the Company Announcements Office, The London Stock Exchange, Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2N 1HP and, during normal business hours up to and including 16 October 1996, from:

The Company: Middlesex Holdings plc, 100 Avenue Road, London NW3 3HF

The Sponsor: Deloitte & Touche Corporate Finance, Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR

The Financial Advisers and Stockbrokers: Hichens, Harrison & Co. plc, Bell Court House, 11 Blomfield Street, London EC2M 1LB

3 October 1996

The Financial Times plans to publish a Survey on

Mexico

on Monday, October 28.

The survey will look at the country's economy, politics, financial markets, foreign policy and more. For more information on advertising opportunities in this survey, please contact: Michael Gesch in New York: Tel: (212) 688-6900 Fax: (212) 688-6229 or Juan Martinez Dugay in Mexico: Tel: (525) 395-5888 Fax: (525) 395-4985 or your usual Financial Times representative.

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The Interim Dividend for the following classes of the above Fund has been declared by the Directors and is detailed below:

CLASS	Dividend per share
UK Fixed Interest	£ 0.037
Multicurrency Bond	£ 0.032
UK Sterling Liquidity	£ 0.028
US Dollar Liquidity	US\$ 0.033

Registered Shareholders at the close business on 30 September 1996 will receive the above payments in £ or US\$ (as requested) on or after 15 November 1996.

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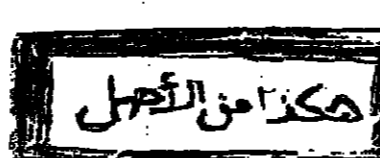
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LIGHT AT THE END OF THE TUNNEL

THE LAST LAP By Geoff Dyer

Still on the rails, but not yet safely in the station

The dramatic refinancing deal which Eurotunnel thrashed out on Tuesday evening with its leading banks represents a victory for the French court...

Both sides always stressed they wanted to avoid administration, which would trigger an unprecedented battle for jurisdiction between the UK and France over control of the company.

refinancings shows just one institution can jeopardise the whole plan. This year, GPA, the Ireland-based aircraft leasing company, nearly abandoned a \$2.7bn refinancing...

The package is expected to include a debt-for-equity swap which will leave the banks owning up to a 49 per cent of the group.

are converted. Will the refinancing plan completely solve the group's financial crisis? There is some scepticism.

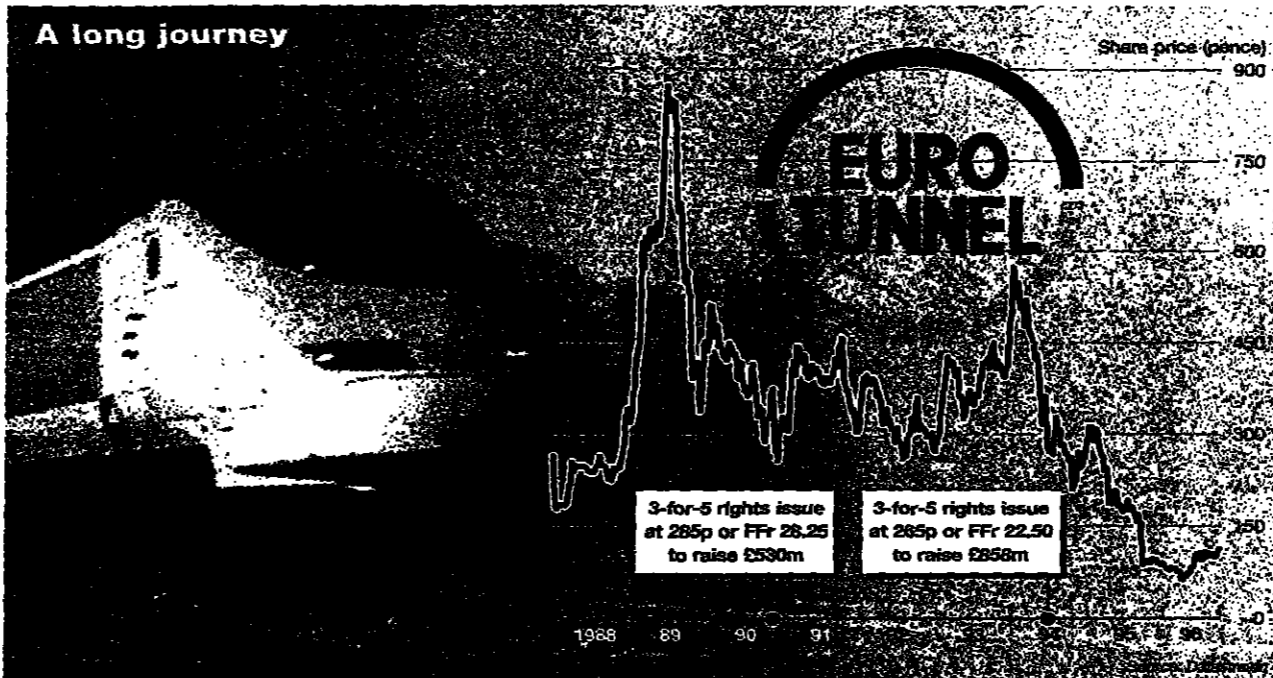
For shareholders wondering when they will receive a dividend, it looks like a long wait.

THE BATTLE FOR THE PASSENGER By Charles Batchelor

The forecast: rising fares in the Channel

Eurotunnel's outline agreement with its bankers could lead to an end to the fierce price competition on cross-Channel routes, ferry operators said yesterday.

and its bankers, this also removes the prospect of what ferry operators have dubbed "the nightmare scenario" of the company collapsing and its new owners slashing prices still further.



while most of the rest is accounted for by Hoverport, a Sea Containers subsidiary. About 21m people cross between Dover and Calais each year.

The best they can hope for is the end to further downward pressure on prices and the phasing out of special offers, some of which allow foot passenger return journeys for £1 and return car journeys for £5.

Following a decision in July by the UK competition authorities to allow P&O and Stena to discuss pooling arrangements, the two companies and others on Channel routes have held talks.

RMT, the state-owned Belgian ferry company that operates between Ramsgate and Ostend, last month announced plans to cease trading with the loss of 1,300 jobs.

NEGOTIATIONS - By Andrew Jack

Celebration but no champagne

There was no champagne at the lunch hosted yesterday by Eurotunnel's joint chairmen to celebrate the accord.

view of the fact that if the group had been governed under English law, they could simply have called in a receiver.

SIR ALASTAIR MORTON

The old campaigner

It seems hard to believe but soon we may not have Sir Alastair Morton to kick us around any more, to misquote former US president Richard Nixon.



in the wrong." Yet even Sir Alastair's fiercest critics will admit it would have been difficult to complete the project without him.

Andrew Taylor

PATRICK PONSOLLE

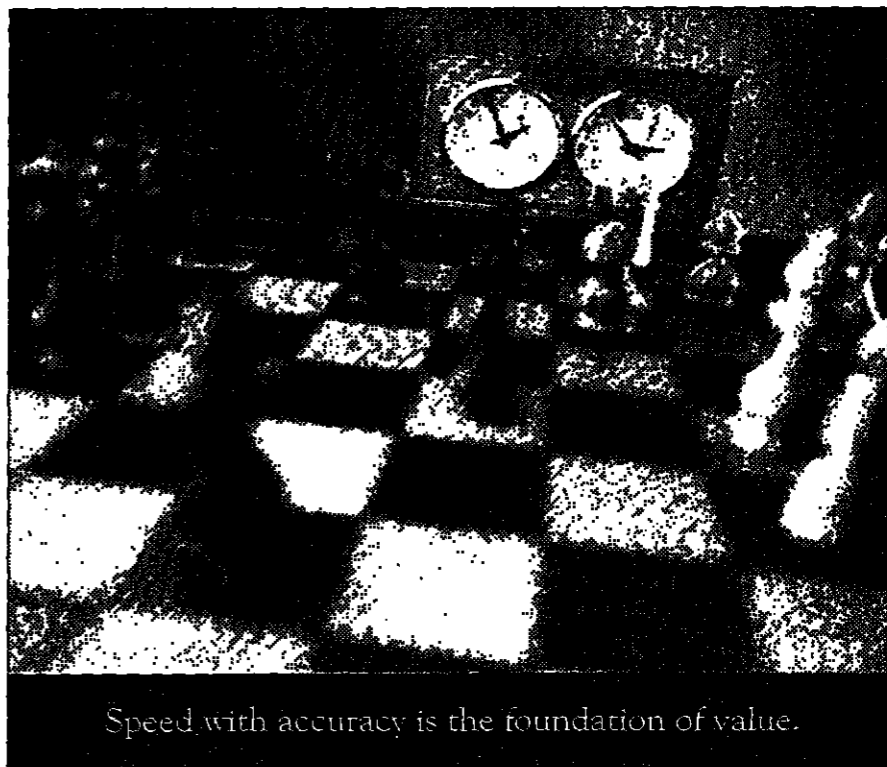
The new whiphand

If one man more than any other can be said to be responsible for the structure of the agreement, it is Mr Patrick Ponsolle.



in September last year. His influence was clear in the move towards a French-style approach to the negotiations.

Andrew Jack



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COMPANIES AND FINANCE: ASIA-PACIFIC

ASIA-PACIFIC NEWS DIGEST

Shareholder bonus at Sun Hung Kai

Sun Hung Kai Properties, one of Hong Kong's biggest property groups, yesterday posted a 6.5 per cent increase in net profits, from HK\$10.36bn to HK\$11.04bn (US\$1.4bn), for the year to June 30. The results were below market forecasts of HK\$11.14bn. Mr Walter Kwok, chairman, said the directors were proposing to award shareholders a special cash bonus of 38 cents a share. He also forecast a strong performance in the current year.

"The continuing buoyant property market in Hong Kong should pave the way for successful sales of properties for the year. Barring unforeseen circumstances, the group's results for the coming year will show a satisfactory improvement," he said. The company also confirmed that SmarTone, the mobile phone operator in which it has a 40 per cent stake, planned an initial public offering. Analysts estimate SmarTone could raise some HK\$1bn.

While Sun Hung Kai has one of Hong Kong's biggest property portfolios, with a landbank of 44.6m sq ft, it is increasingly taking on infrastructure projects. Mr Nicholas Pang, property analyst with ING Baring Securities in Hong Kong, said the switch was an attempt to diversify the company's earnings base in readiness for full capacity in the property market. Earnings per share for the reporting period rose 5.2 per cent, from HK\$4.46 to HK\$4.69.

Louise Lucas, Hong Kong

Sale talk hits Cepsa shares

Shares in Consolidated Electric Power Asia fell sharply yesterday on speculation that its parent, Hopewell Holdings, had clinched the sale of part of its interests in the company. Cepsa's shares closed at HK\$15.40, down 4.2 per cent on the previous day's close of HK\$16.05, against a slight rise in the Hong Kong benchmark Hang Seng Index. Traders said the sale share price was at the lower end of expectations, and that this prompted a spate of selling.

Hopewell Holdings, a property and infrastructure company, told the Hong Kong Stock Exchange it was in negotiations with independent parties two weeks ago, but said no decision had been taken on Cepsa.

Analysts believe Mr Gordon Wu, chairman, is unlikely to sell Hopewell's entire 60 per cent stake in Cepsa. The market doubts his ability to pull off a big sale, after a number of mooted cash-raising ventures failed to take place.

Louise Lucas

Japanese cement downgrades

The credit ratings of Japan's largest and third-largest cement producers were yesterday reduced by Moody's, the US credit rating agency. It attributed the downgrading of Chichibu Onoda Cement and Nihon Cement to fears that both companies' profits would suffer from falling prices caused by industry-wide overcapacity.

However, Moody's left unchanged the rating of Japan's second-largest cement producer, Sumitomo Osaka Cement, because it had cut costs more sharply than its largest competitors and its parent, the Sumitomo group, was expected to support it.

Moody's warnings about the cement industry came just two days after it issued an even gloomier prognosis for Japan's chemicals industry.

William Dawkins, Tokyo

US plant for James Hardie

James Hardie, the Australian building materials group, is to build a \$40m (US\$31.7m) fibre cement plant at Frederickson, near Tacoma, Washington. It will be the company's fourth US fibre cement plant, after facilities in California, Florida and Texas. The Frederickson plant will be operational by early 1998.

Nikki Tait, Sydney

Oil group restructures debt

Woodside Petroleum, the Australian oil and gas company which is the leading participant in the North-West Shelf project offshore of Western Australia, has refinanced its debt facilities. A US\$1.45bn loan has been repaid and replaced by a US\$1.2bn facility made up of a US\$850m five-year tranche and a seven-year US\$250m portion.

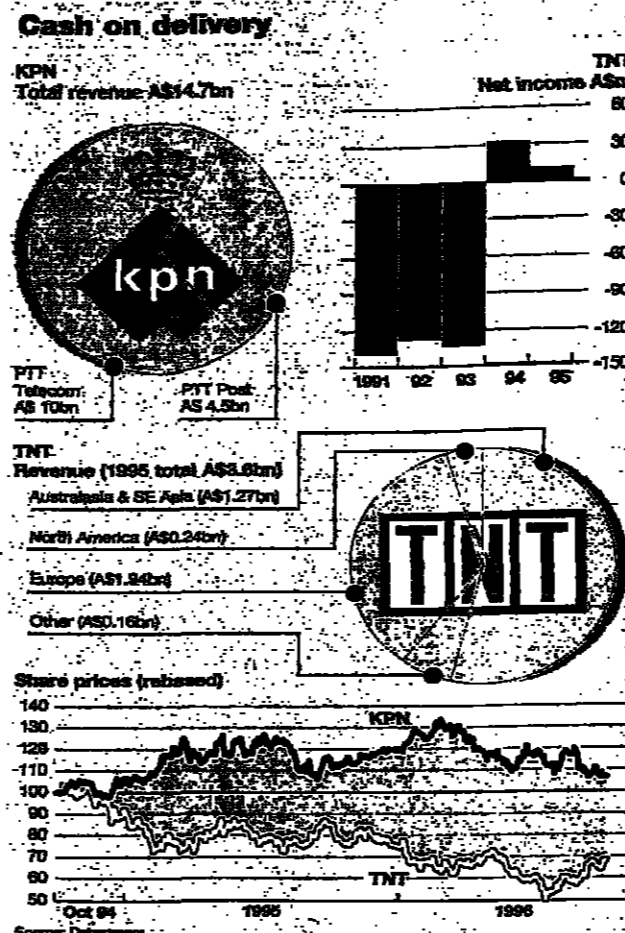
Nikki Tait

Wrapping up the old world with the new

KPN's A\$2bn takeover of TNT reflects the groups' changing philosophies

Their origins could hardly be more different. KPN was until 1989 a Dutch government department, shuffling mail around a modest-sized country and running a complacent telephone monopoly. TNT started life as a one-man trucking business in mid-1940s Australia, its entrepreneurial thrust later extending beyond even that vast expanse.

In 1967, the then Thomas Nationwide Transport merged with the Alltrans transport business built up by Sir Peter Abeles, the rag-to-riches tycoon who arrived in Australia from Hungary in 1949. For the next two decades the colourful and controversial businessman ruled TNT in autocratic style, taking the group into important European markets, but also into a series of joint ventures outside its main business areas.



But after a boardroom row three years ago, Sir Peter and four other directors walked out of a group which was then heavily indebted and loss-making. So it was that the bureaucrats from the old world - themselves transformed by privatisation into managers of one of Europe's best-regarded utilities in its sector - were yesterday able to win TNT's agreement on an A\$2bn (US\$1.6bn) takeover.

Following its shift to corporate status, KPN was privatised in two tranches, though the Dutch government retains a 45 per cent stake. Its executives inherited a company which not only held its postal side intact - unlike in countries such as the UK - but where that division did not significantly hold back the aspirations of its telecoms side.

PTT Post, as the postal unit is known, had over many years built a commanding presence in "remailing" - taking in bulk consignments from foreign corporate clients which it then wraps, addresses, labels and ships as needed to a specified customer list.

It went on to develop markets in overnight and express delivery services, which was where KPN and TNT first met. The Sydney-based company owns half a

joint venture called GD Express Worldwide, which delivers documents, parcels and freight, mainly within Europe, under the trading name TNT Express Worldwide. Through a joint venture, KPN owns a further 27 per cent, increased from 9 per cent in June as other European and Canadian postal utilities sold out.

The sole remaining shareholder is Swedish Posten, which now has to decide whether to stay in the Amsterdam-based grouping with its influence diluted by the merger. But GD Express, which employs some 13,500 people worldwide, is likely to have formed a main part of the "long-standing strategic discussions" over combining the businesses to which KPN and TNT yesterday referred.

The purchase will be financed in large part by a Fl 2.25bn (\$1.3bn) revolving credit arranged and underwritten by Goldman Sachs, the investment bank which is also acting as KPN's adviser. Standard & Poor's the US credit rating agency, yesterday reaffirmed its AA+ rating for the Groningen-based company, noting that its "balance sheet and core cash flow generation remain very strong".

However, S&P also warned that the acquisition "will increase the group's exposure to riskier operations", and said it did "not expect KPN to make further sizeable acquisitions until cost saving and synergy benefits from the TNT acquisition are realised".

The company declined, however, to offer any such assurance. "We have a good cash position, so there is still room for the telecoms side to go ahead as well," said one official. So far this year, PTT Telecom, a founder of the Unisource European grouping, has bought stakes in Irish and Indonesian phone companies. The aim is to replace revenue lost when its domestic fixed-line monopoly in the Netherlands ends next July.

TNT, which is being advised by Macquarie Corporate Finance of Australia, has over the past three years stabilised its finances and pruned back to concentrate on the time-sensitive freight and logistics operations. It recently announced it would wind down in general freight operations in Australia, and has been sorting out problems at overseas subsidiaries. Nevertheless, in the year to June, TNT's operating profit before abnormal items still fell heavily.

Gordon Cramb and Nikki Tait

Deutsche Telekom quiet on Indonesia stake talk

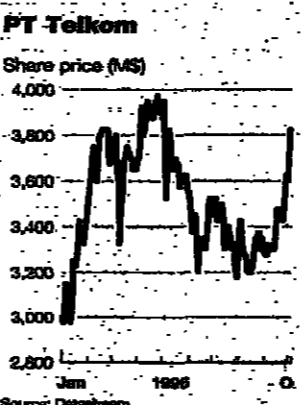
Deutsche Telekom yesterday declined to comment on suggestions that it would buy into PT Telkom, the partially-privatised Indonesian telecommunications group, whose shares jumped on speculation that the German group might take a stake.

However, the Bonn-based telecoms group, which is to be partially privatised next month, already holds a 25 per cent stake in Sateindo, another Indonesian telecoms company which competes with PT Telkom.

"These are market rumours on which we do not comment," the company said.

"However, the idea that we would buy into a competitor of Sateindo, a company in which we already hold a stake, suggests it is pure speculation."

PT Telkom's shares rose Rp125 to close at Rp3,825.



Traders said the shares had been driven higher by strong demand for PT Telkom American Depository Receipts in New York overnight.

Dealers in Jakarta said investors were buying PT Telkom shares because the possibility of a private placement would make a further public offering of Telkom shares less likely.

PT Telkom's initial public offering was cut in half last year.

"A private placement will eliminate speculation on what will happen [if PT Telkom] sells an extra tranche to the market," said one dealer with a leading foreign brokerage.

Three times this year reports of Deutsche Telekom's Asian acquisitions have leaked out before deals were finalised.

After months of negotiations, the German group in May took a 21 per cent stake in Technology Resources Industries, a Malaysian company which operates a fixed network.

It later took a 35 per cent stake in Isacom, a Philippines group which operates fixed network, mobile and paging services.

A third deal this year in Asia saw the German group take a 25 per cent stake in Shinawatra, a Thai group which also operates fixed network, mobile and paging services.

Bank West ahead of prospectus

BankWest, the Perth-based regional bank controlled by Bank of Scotland, yesterday announced an after-tax profit of A\$48.3m (US\$38.2m) for the six months to end-August, against A\$45.9m for the same period last year, once extraordinary items are excluded.

It also said the result was 2.3 per cent higher than the figure included in its prospectus forecast for the 1996-97 full year. In the prospectus - issued when Bank of Scotland floated a 49 per cent stake in BankWest on the Australian stock market earlier this year - BankWest forecast an after-tax profit of A\$100.2m for the year to end-February 1997.

The bank said the profits translated into earnings per share of 11.1 cents compared with 10.5 cents last time, before extraordinary items. An inaugural dividend of 8 cents a share will be paid next

month, and directors said they were confident of meeting the forecast full-year dividend of 16.5 cents.

During the first half, business lending approvals totalled A\$1.18bn, while housing loan approvals reached A\$778m. Total loans and acceptances rose 8.9 per cent to A\$8,78bn, with total assets increasing 7 per cent to A\$10.9bn. Net impaired assets stood at A\$29.3m.

However, the bank warned that intensifying competition in the housing loans market had put pressure on interest margins, which would be further squeezed in the second half.

Directors said the Western Australian economy was still benefiting from fairly buoyant conditions in the resources sector. "The boom will no doubt spread to other sectors of business in the state, and we expect to reap the benefits of this excellent growth outlook," said Mr Ian Mackenzie, chairman.

Toyota reshapes North American business

Toyota, Japan's largest manufacturer of motor vehicles, has announced a reorganisation of its North American operations, highlighting the growing global push by one of Japan's most conservative companies.

The company has established Toyota Motor Manufacturing North America in Kentucky to co-ordinate administrative functions previously carried out by various different Toyota manufacturing companies in North America.

The new company will be responsible for business planning, production control, purchasing, legal and external affairs, as well as financing

related to Toyota's manufacturing operations in North America.

The move is part of the growing trend among Japanese carmakers to shift production closer to their markets because of high costs in Japan and trade friction.

The company said the reorganisation stems from a need to create a more efficient administrative structure in a market where Toyota has been increasing production significantly, but in piecemeal fashion. Sales in the first eight months of this year rose 6 per cent on the same period of last year to more than 800,000 units.

"With the expansion of Toyota's manufacturing operations in North America, it was felt that a company

was needed to oversee the administration of the various operations," a Toyota representative said.

"Ten years ago we had no production facilities in the US. But with the start of manufacturing, we have also had to localise development, procurement and testing," he said.

Some functions that have been carried out in Japan, such as production control and business planning, will be transferred to the new North American company.

However, Toyota is not yet prepared to hand over greater independence to its regional operations, the company said. Unlike Honda and Nissan, which have set out a strategy that calls for substantial regional independence, the head-

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To: The holders of 9% Debentures, Series DR, Due 2006 of BELL CANADA

NOTICE IS HEREBY GIVEN pursuant to the provisions of the Trust Indenture dated as of July 1, 1976 between Bell Canada and The Royal Trust Company, as Trustee, and indentures supplemental thereto including the Fourteenth Supplemental Trust Indenture dated as of May 6, 1986 (collectively the "Indenture") that all of the 9% Debentures, Series DR, Due 2006 (the "Debentures") of Bell Canada outstanding under the Indenture will be redeemed on November 5, 1996, at a price equal to 102 1/2% of the principal amount thereof plus accrued interest of Can. \$47.01 per \$1,000 Debenture to the said redemption date (the "Redemption Price").

The Redemption Price of each of the Debentures will be paid in lawful money of Canada on presentation and surrender of each of the Debentures at the main office in Montréal of Bank of Montreal, or, at the holder's option, at the main office of Morgan Guaranty Trust Company of New York in Brussels, of Bank of Montreal in London (England), and of Union de Banques Suisses (Luxembourg) S.A. in Luxembourg. Each of the Debentures so surrendered must be accompanied by all unmaturing coupons appertaining thereto, failing which the face value of the missing unmaturing coupons will be deducted from the Redemption Price.

Payments at the offices mentioned above will be made, subject to applicable laws and regulations, in Canadian dollars by cheque drawn on a bank in Montréal or by transfer to a Canadian dollar account maintained by the holder with any bank in Montréal.

AND NOTICE IS FURTHER GIVEN that interest upon the principal amount of the Debentures shall cease to be payable from and after the said redemption date of November 5, 1996.

DATED: October 3, 1996

This announcement appears as a matter of record only September 1996

LLOYD'S
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NatWest Markets
 as Agent

BONGRAIN
 1996 First half-year results

BONGRAIN's consolidated results at the end of June 1996 reflect the generally difficult economic trends and more particularly those of the milk industry. These results were influenced by the following factors:

- sales growth was obtained by sustained promotional efforts together with advertising investments,
- increases in some raw material prices and costs (payroll, taxes...) were not recovered by sales prices,
- major decreases in sales prices of excess milk and by-products,
- sustained investments and development efforts in Eastern Europe and America.

Consolidated earnings (in millions of French Francs)	June 30, 1996	June 30, 1995
Net sales 5,053.4	4,935.6	1,404.3
Value added	1,380.7	485.5
Gross operating income	421.9	485.5
Net operating income	+250.3	+312.2
Net financial income and expense	- 2.6	- 37.4
Earnings before tax	+247.1	+275.3
Total net earnings	+148.1	+184.0
Net earnings excluding minority interests	+129.5	+164.6

These first half results will not affect BONGRAIN's medium and long term expansion strategy.

Western Europe remains as the solid base of the Group's activities with internationalisation a development priority, particularly in North and South America and in Central Europe.

The Republic of Venezuela
 27,749,500

Provid Limited Investment Reductions
 Bonds due 2007
 STG Interest Reduction Surface

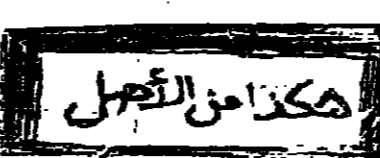
In accordance with the provisions of the Bonds, notice is hereby given that for the Interest Period from September 28, 1996 to March 22, 1997 the Bonds will carry an Interest Rate of 7% per annum. The Interest payable on the relevant Interest Period, due on March 22, 1997 will be 572,100 (1996 principal amount).

By: The Citibank International Bank
 Agent
 October 3, 1996

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COMPANIES AND FINANCE: THE AMERICAS

Weaker markets hit Morgan Stanley

By Tracy Corrigan in New York

Weaker financial markets over the summer took their toll on Morgan Stanley's earnings in the third quarter, but better conditions in September should contribute to a recovery in the final three months of the year, the US investment bank said yesterday.

Group revenues, less interest, dropped from \$1.58bn in the second quarter to \$1.27bn. The figures were in line with market expectations, and shares rose 50 cents to \$51 in a stronger market.

Mr Phil Duff, the bank's chief financial officer, said business got progressively worse in June, July and August, and was adversely affected by volatile US markets. Client trading and underwriting had bounced back in September, however.

here, as was feared during the summer," said Ms Sallie Krawcheck, an analyst at Sanford Bernstein. "The mergers and acquisitions pipeline remains strong."

Morgan Stanley was the world's leading financial adviser for mergers and acquisitions in the first nine months, handling deals valued at more than \$153bn, according to Securities Data. The bank also stands to benefit from the backlog of equity underwriting caused by the postponement of deals during the summer.

Investment banking revenues fell to \$431m in the third quarter, down from a second-quarter record of \$542m, although it was still the third-best quarter in the bank's history. Trading revenues fell for the second consecutive quarter, while asset management revenues were slightly weaker than in the second quarter, although they were higher than in the same period of last year.

In a move to smooth the succession at the bank, the company also announced the appointment of Mr John

Mack as chief executive from June 1 1997. He will remain the investment bank's president, a position he has held since 1983.

The change is designed to allow Mr Dick Fisher, the company's chairman, to stand back from the day-to-day running of the company and spend more time with clients. The next step in the succession plan will be the search for the successor to Mr Mack, who is expected to become the next chairman when 60-year-old Mr Fisher retires.

Developer steps up Chateau campaign

By John Authers in New York

Mr Samuel Zell, the Chicago property developer, yesterday stepped up his campaign to buy Chateau Properties, a Michigan-based real estate investment trust (REIT), accusing Chateau's directors of attempting to "disenfranchise" their shareholders.

Analysts believe a successful defence by Chateau might deter further hostile bids in the REIT sector, which has a current market capitalisation of \$57bn, compared with only \$8.7bn in 1990.

Mr Zell's comments come after Chateau revised a plan to merge with ROC Communities, a Colorado-based REIT. The plan exploited the REIT's complex capital structure, which splits ownership between common shareholders and managers, who hold "operating partnership units".

Under Chateau's plan, only a simple majority of shareholders are required to approve the deal, rather than the previous two-thirds of all outstanding shares. Also, the tax liability which would normally be created by selling the partnership units - estimated by Mr Zell at \$127m - will be transferred to the common shareholders.

Chateau's proposal followed a tender offer by Mr Zell's Manufactured Home Communities valuing the company at \$400m in cash. This was due to expire on Tuesday this week. Mr Zell yesterday said it was to be extended to October 23.

But he added he now wanted to start discussions with Chateau's board on the possibility of an offer allowing long-term tax deferral for Chateau's managers.

AMERICAS NEWS DIGEST

Toys R Us buys rival for \$403m

Toys R Us, the US toy superstore group, yesterday expanded its new Babies R Us concept by buying the rival Baby Superstore group in an all-share deal worth about \$403m. Toys R Us shares rose more than 7 per cent in early trading, by \$24 to \$31.

Toys R Us opened its first Babies R Us store earlier this year, and there are still only three in the chain. In contrast, Baby Superstore has 70 stores in 21 states, and made net profits of \$11.7m on sales of \$29m last year. Mr Michael Goldstein, chief executive of Toys R Us, said the acquisition would turn Babies R Us into the leading US operator of infant superstores with sales of more than \$450m this year.

Under the agreement Baby Superstore's shareholders will get 0.8121 of a Toys R Us share for each share they hold. But Mr Jack Tate, Baby Superstore's founder and chief executive, will take only 0.515. Mr Tate, who holds 46.8 per cent of Baby Superstore's common stock, said he accepted a lower ratio to enhance the returns for other shareholders. However, he will receive more than \$140m worth of Toys R Us stock, making him the company's biggest shareholder.

Jamaican banks merge

Two Jamaican commercial banks have merged to create the island's largest bank, amid continuing uncertainty over the sector. The National Commercial Bank of Jamaica has been created from the merger of National Commercial and Mutual Security. It has assets of J\$53.7bn (US\$1.52bn), deposits of J\$39.2bn and a loan portfolio of J\$19.2bn. Its owner is NCB Group, a financial services conglomerate.

National Commercial was created in 1977 when the Jamaican government bought the local operation of Barclays Bank, of the UK. It was privatised in 1985. Mutual Security was established in 1985 when Mutual Life, a life insurer, bought the Jamaican operations of Royal Bank of Canada. Mutual Life has a 51 per cent stake in NCB Group. The bank merger coincided with a run on Citizen's Bank, the island's fifth largest, following rumours it would be taken over by the government because of liquidity problems. The government and Citizen's Bank yesterday denied the rumours, saying the bank was sound. Concerns about the island's banking sector deepened in July when the government took over Century National, the island's fifth-largest commercial bank, saying it had liquidity problems. The government had earlier advanced J\$4.5bn to Century National in a failed effort to keep it going.

Teleglobe wins full US status

Canada's overseas telecommunications company, Teleglobe, has won Federal Communications Commission approval to become a fully-fledged carrier in the US. Teleglobe has long sought authority under FCC Section 214 to accelerate expansion of its global network. It already had reseller status in the US, with a switching centre in New York and a US head office in Washington. Its fibre-optic and satellite networks reach more than 200 countries and it now requires more international volume.

LTV returns to the diversification trail

US group plans to branch out into new steel technologies and new markets

Three years after a protracted bankruptcy, LTV is about to diversify again. But this time, the US steelmaker promises it will not buy any tennis racquet companies, drug stores or airlines.

Seven years in Chapter 11 saw LTV become one of the most US disparate conglomerates with interests ranging from Wilson Sporting Goods to Braniff Airlines - stripped down to an integrated steel producer with two mills in the American Midwest.

"Now," says Mr Peter Kelly, LTV president, "we're looking for investment opportunities." The company plans to branch out into new steel-making technologies and to diversify geographically. "But it's not as though we're going into markets we don't understand," Mr Kelly says.

There will be risks, however. Production is due to start early next year at Trico Steel, a joint-venture mini-mill development in Alabama involving LTV (which has a 60 per cent interest), British Steel and Sumitomo of Japan. As the first traditional integrated steel company in mini-mills - which cast steel from scrap melted in electric furnaces - LTV will be working with technology of which it has no experience. Mini-mills cast steel from scrap melted in electric furnaces.

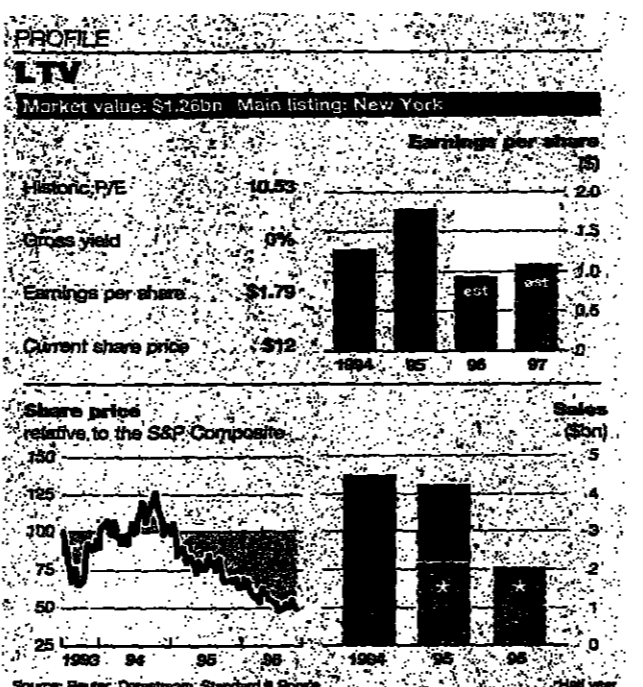
The Trico project has also enraged the United Steel-

workers union, which sees an integrated producer investing in what is likely to be a non-union plant. LTV's workers made "millions of dollars of economic sacrifices to save the company" during the 1980s, says Mr Mike Scavner, a union organiser, but the company is now turning its back on its workers.

LTV reports that Trico will not take work from the company's existing mills, but will serve a new market in the south. Mr Kelly says the company has also invested heavily to make its mills in Ohio and Indiana more efficient. "That's not an exit strategy," he says.

Earlier this year, LTV also announced its first investment - through a 46.5 per cent interest in a joint venture - in a process for making a scrap substitute: direct reduced iron, or DRI. This is also a new technology, though LTV says the participation of the company that developed the process, Lurgi AG, will increase the chances of success.

Michael Gambardella, an analyst at J.P. Morgan, adds that LTV should not face too many obstacles in its attempts to move into the vanguard of steel industry technology. "There's not a lot of proprietary technology in the steel industry," he says. "Anyone who has the cash can buy it."



In future, Mr Kelly says, LTV also plans to invest in new steel-producing operations overseas, particularly in emerging markets. To limit risks, overseas investments will be made through joint ventures like Trico, Mr Kelly says. For an industry that has been almost entirely domestic in outlook, this could be a revolution. The sinking dollar and higher prices in Europe enabled US steel companies to lift exports to 7 per cent of sales last year.

That compares with \$80 a ton at US Steel, the nation's largest producer, or the \$66 a ton at Nucor, the pioneering mini-mill company.

Recent months have been more difficult after a slide in prices. LTV's sales fell 6 per cent to \$2.1bn. Pre-tax profit margins tumbled from 8.5 per cent to 3.5 per cent, though cash generation remained solid at about \$51 a ton.

It is hard to be optimistic about the US steel market. A partial recovery in prices over the summer has done something to repair margins, but a stream of new mini-mills - including Trico - may create over-supply on the domestic market by the end of the decade.

Against that background, LTV's shares have drifted down to about \$12 - more than 40 per cent below their level two years ago. Their future performance is likely to depend increasingly on how well the company deploys its cash in strengthening its position in the world steel market.

"We are the only integrated [steel] company in America that is doing something truly different," Mr Kelly asserts. LTV shareholders will no doubt hope that this time the company's attempts to be different will have a happier outcome.

Richard Waters

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Jerome R. Brimeyer
Michael C. Burrow
J. Michael Clatterbuck
Kevin T. Connors
Thomas P. Corcoran
Robert C. Cox
Kevin F. Cunningham
Peter H. Dailey, Jr.
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Mark D. Dicioccio
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September 1996

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COMPANIES AND FINANCE: UK

Norwich Union set to raise £2bn via flotation next year

By Motoko Rich

Norwich Union is to become the first UK life insurer to abandon mutual ownership in a flotation on the stock market which would raise an estimated £2bn (£3.1bn) in new money.

Following nearly a year of speculation since the group first said it was considering a flotation, the company said yesterday it intended to come to the market next year.

Although the group declined to reveal details of the flotation, it is believed the company will be valued at about £3.5bn and its 2.8m members will each receive about £500 in free shares.

Norwich Union's move puts pressure on other life assurance companies to follow suit. However, Standard Life and Scottish Widows, both large mutual insurers, have repeatedly expressed commitment to mutual status.

The group also withdrew membership rights for all policies sold after midnight on Tuesday to deter "carpet-baggers" who might try to join the company in the hope of a flotation bonanza.

When Norwich Union, which has £40bn funds under management, first

said it was considering flotation last October, it indicated it could be interested in raising capital for acquisitions either in the UK or overseas.

However, Mr Allan Bridgewater, group chief executive, said yesterday: "We are not raising a war chest."

The capital being raised will be used to disentangle the group's general insurance business from its life assurance fund.

As a mutual insurer, Norwich is unique in that it is both a life and general insurer. Last year it generated £4.7bn of gross premium income. Currently the life assurance business has "own" the general insurance assets and overseas subsidiaries - in Ireland, France, Spain, Canada, Australia and New Zealand.

This structure means that life policy holders are exposed to volatility in the general insurance market, which can be fierce. Norwich Union suffered three years of poor results on its general insurance side at the beginning of this decade.

In the flotation the general insurance assets and overseas subsidiaries will be withdrawn from the life fund and put into the public limited company structure,

meaning that shareholders, rather than policy holders, will bear the risks associated with the general insurance business.

Most of the capital raised will be injected into the life assurance fund to replace the general insurance assets and to ensure that policy holders still receive bonuses on with-profits policies.

Analysts broadly welcomed the flotation but said the group could also consider a trade sale of its general insurance business or become a target for takeover itself. "Since they are not going to have any golden shares or protection from takeover, that could be the eventual outcome," said one analyst.

Members who will be eligible for the free shares include life assurance policy holders, individual pension holders and customers with annuities or in company pension schemes.

Motor and household insurance customers are not eligible.

Qualifying members will receive a fixed pay-out of free shares and an additional allocation if they have with-profits policies. Members will also have preferential rights to subscribe in further shares.

Lotus sales talks end

By John Griffiths

Negotiations to complete the sale of Lotus, the sports car and engineering group owned by Mr Romano Artioli, to Korean industrial group Daewoo, have been suspended.

Daewoo Motor in Seoul blamed differences over terms and conditions of the sale, which Midland, Lotus's bank, and other parties with a commercial interest in the Norfolk company's future had expected to be signed before the end of this week.

Daewoo would give no explanation of either the differences between the two sides or the sequence of events which had led to the negotiations being suspended. Lotus itself is still refusing to confirm that it is even talking to Daewoo. However, the Korean group said it was "still interested" in buying Lotus.

Daewoo is understood to be prepared to pay up to \$75m for Lotus, described as "over the odds" by other companies which have considered offers, mainly to acquire the expertise of Lotus' highly-regarded engineering work force.

Mr Artioli has been reluctant to sell Lotus and has entered negotiations to do so only under pressure from creditors of Enagati.

BoS beats all forecasts

By George Graham, Banking Correspondent

Bank of Scotland yesterday surprised the City with a 24 per cent increase in profits to £224.3m (£506m) before tax in the six months to August 31, £20m ahead of even the most optimistic of estimates.

Analysts raised profits forecasts for the full year by about 5 per cent to £650m-£660m.

The strong first-half performance helped lift shares by 9p to 264½p. This means the shares have appreciated by 19 per cent since a 30 per cent stake in the bank was sold by Standard Life to institutional investors in July.

The bank, which has about 35 per cent of the banking market in Scotland, has doubled its share of the UK banking market to more than 7 per cent, winning customers in England through telephone and personal computer delivery channels.

This has helped it maintain a lower cost base than most rivals. Although costs rose at an underlying rate of 15 per cent in the March to August period - the result of investments in computer systems and branch refurbishments - they were outpaced by operating income.

loyal to their traditional banks; Bank of Scotland, as an outsider in the English banking market, could benefit from this.

Its first-half results included the first full contribution from Bank of Western Australia, the regional bank it bought last year from the state government before floating 49 per cent.

Mr Burt said he believed the controversial A\$496m acquisition of BankWest would prove to be a good long-term investment; even in the short term it had boosted Bank of Scotland's earnings.

"I would expect that in 50 years time our successors will bless us," he said. Brokers were surprised by yesterday's results because they had underestimated the bank's ability to maintain its lending margins in the face of stiff competition in both the corporate loan and home mortgage markets. The average net interest margin widened slightly to 2.69 per cent.

Three months ago, eyebrows were raised when researchers at BZW, the investment bank hired by Standard Life to sell its 30 per cent stake in Bank of Scotland, lifted their forecasts for the bank's full-year profits to £625m.

But others yesterday followed BZW's lead. Mr Hugh Pye, BZW's analyst, expects to raise his estimate for full-year earnings to around £655m.

LEX COMMENT Norwich Union

There is plenty to be said for Norwich Union's flotation plans. Life policy holders will get a windfall and no longer have to bankroll Norwich's general insurance business. And as a public company, Norwich will face tougher disciplines; unlike a converted building society, it will rightly enjoy no protection from takeover. So far, so good. Yet is Norwich not missing a golden opportunity to be bolder? It makes sense to disentangle the general insurance business, but why keep it at all? As it is, the life fund will have to compensate for losing the general business through a hefty and doubtless discounted share issue. It would surely be better to fill this gap with the proceeds from selling the general business to another insurer; that way, a decent premium could be extracted to reflect economies of scale. This solution should also imply a better price for the floated life business; there are far more potential bidders for a medium-sized life insurer than for the £42m composite Norwich Union is hoping to become. Of course, there would be some losses from splitting the businesses, notably the joint brand. Yet general insurance has become so cut-throat that a pedestrian brand like Norwich's is of little benefit. In truth, the management appear to have thought only of the disadvantages of selling the business and not enough of the disadvantages of keeping it. Such are the luxuries of running a mutual.



Johnston profit hit by bid defence

By David Blackwell

The cost of fighting off a tender offer this summer contributed to a 57 per cent decline in interim profits at Johnston Group.

The family controlled engineer spent £340,000 on recommending shareholders reject an offer of 500p a share from TT Group, the manufacturing conglomerate, for 2.8m shares.

TT, which was aiming to achieve a 29.9 per cent holding, received acceptances for only 4.5 per cent of the shares.

Pre-tax profits for the six months to June 30 fell from £3.8m to £1.65m on total

sales increased from £65.9m to £70.8m. The shares - 51 per cent held by the family and directors - were unchanged at 465p.

"Our markets have been much tougher than in the first six months last year," said Mr Michael Johnston, managing director, yesterday. But order books were reasonable and he hoped that - with no distractions - the second half would prove better. Sales rose from £34.8m to £42m in the engineering division, buoyed by a high level of deliveries of mechanical sweepers to New York. However, operating profits fell to £1.78m (£2.26m) as US losses continued.

RESULTS

Company	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Ardagh & ...	35.8 (33.9)	5.81 (5.18)	14.81 (13.55)	3.6	Nov 25	3.25	4.65	4.2
Bank of Scotland	- (-)	324.3 (261.9)	15 (12.5)	2.91	Nov 29	2.45	-	8.85
Billam	3.47 (3.49)	0.002 (0.008)	0.1 (4.3)	2.2	Nov 8	2.2	-	5.3
Biffou	17.5 (18.4)	9.2 (9.1)	7.2 (7.2)	2.89	Dec 3	2.89	-	10.33
Blarney	102.8 (92.1)	30.7 (13.1)	18.1 (8.1)	3.675	Jan 15	3.5	-	10.5
Chubb	3.15 (3.2)	0.72 (0.375)	2.15 (0.44)	2.15	Dec 12	2.15	-	3
Herndon Stuart	141.8 (141.8)	14.7 (15.7)	3.56 (6)	0.8	Dec 12	0.75	-	3
HTV	99.1 (96.4)	6.7 (6.1)	5.7 (5)	1.4	Nov 15	1.25	-	3.75
J.B. Sports	55.2 (37.5)	7.24 (4.82)	5.03 (3.45)	1.5	Dec 10	0.92	-	2.92
Johnston Group	70.8 (65.9)	1.65 (0.8)	7.5 (22.67)	4.5	Dec 12	4	-	11
Lambert	58.9 (65.6)	2.12 (7.8)	4.85 (17.98)	3.65	Dec 2	3.65	-	12.8
Sheldrake	1.73 (-)	0.193 (-)	1.93 (-)	1.93	Dec 2	1.93	-	10
Time Products	48.3 (38.6)	9.06 (5.54)	11.29 (7.02)	4.5	Jan 10	3.5	-	10

Investment Trusts

Company	NAV (p)	Attributable Earnings (p)	EPS (p)	Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Albany	170.96 (155.88)	0.326 (0.294)	3.25 (2.75)	1.6	Nov 5	1.45	-	4.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *Wish currency. †After exceptional charge. ‡After exceptional credit. ††Increased capital. □ Total income. *Comparatives for 12 months. ‡Equivalent after adjusting for scrip issue. ††M stock.

Blenheim more than doubles

By Patrick Harverson

Blenheim Group, the exhibition organiser in takeover talks with Reed Elsevier, the Anglo-Dutch information and publishing group, yesterday underlined its attraction to Reed and other potential bidders by unveiling interim pre-tax profits more than doubled to

£30.7m, against £13.1m.

However, directors said the scale of the profits increase in the six months to June 30 was exaggerated by exceptional charges and losses at the French operations last year. Turnover was £102.8m (£92.1m).

The figures exceeded market expectations by several million pounds.

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THURSDAY OCTOBER 3 1996
COMMENT
Orwich
Union

JJB up 50% and strikes Tesco link

By Christopher Price

JJB Sports, the sports goods retailer, yesterday announced fresh expansion plans, including arrangements to take space with other retailers in high street locations.

The group has struck an agreement with Tesco whereby it will lease space in new high street Tesco stores. Four JJB shops have been opened either above or below Tesco stores and more are planned. A similar deal has been struck with Littlewoods.

The news, accompanied a 50 per cent rise in half-year pre-tax profits from £4.82m to £7.24m.

Turnover increased 47 per cent to £55.2m as a further 12 stores opened during the six months to July 31, taking the total to 180.

Mr David Whelan, who founded the company in 1979 and still holds a 59 per cent stake, said a further 25 stores would open in the second half. JJB intended to increase the number of high

street stores to 500 and out-of-town sites to 200 over the next 10 years. The current number of outlets is 148 and 12 respectively.

"The market is nowhere near saturation, far from it. The market is still very fragmented," he said.

There were about 2,500 independent sports shops, he added.

Like-for-like sales increased 18 per cent, buoyed by sales of replica football kits from Euro 96. There was a £400,000 provision against a possible loss on the sale of the former head office and warehouse.

Current trading was showing a rise of 42 per cent in sales for the first eight weeks, including a 14 per cent like-for-like increase.

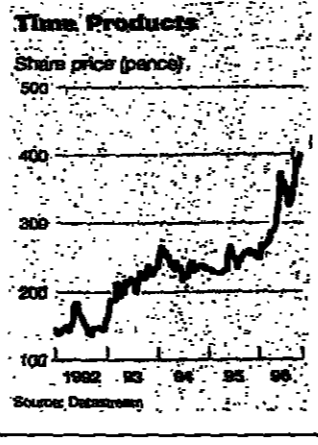
Cash at the period end was £12m.

Mr Whelan said the group would continue to pursue growth through organic expansion. He ruled out a special dividend, holding out further returns from the "progressive" dividend policy.

Time Products gets Ferrari boost to £9m

By David Blackwell

The renewed interest surrounding the Ferrari Formula One motor racing team this season helped Time Products, the branded watches and handbags distribution group, to lift interim profits 63 per cent. The rise was driven by the group's luxury watch division, which late last year started to sell a new Ferrari range made by Girard-Perregaux and aimed at the top of the market.



Mr Marcus Margulies, chairman, said the watches, which start at £2,000, had sold "very well."

Luxury watches accounted for more than half total group sales of £48.3m (£38.6m) in the six months to July 31.

Pre-tax profits rose from £5.54m to £9.1m.

The group holds agencies for seven luxury watchmakers, with Audemars Piguet and Piaget the strongest performers.

Mr Margulies warned that sales for the rest of the year would be unlikely to match the "exceptional level" of the first half.

The volume watch business - mainly Sekonda - is weighted towards the second half.

But it nonetheless maintained its 10 per cent share of the UK market.

Mr Margulies said that the Judith Leiber brand of luxury handbags and costume jewellery - which is now sold alongside Cartier, Hermes and Gucci in Harrods' Room of Luxury - was likely to break even



Butte within a whisker of watchdog's bite

By Jim Kelly, Accountancy Correspondent

Butte Mining, the listed excavation group, came very close this week to securing an ignominious footnote in the history of UK company accounts. It was within a whisker of being the first company to be taken to court by the Financial Reporting Review Panel - the accounting watchdog.

Normally the panel, a sister body to the Accounting Standards Board, works quietly behind the scenes looking at accounts that might depart from the law. When it finds something wrong the offending company usually amends its accounts and the panel publishes a discreet statement.

But the case of Butte Mining is different. The panel's statement, issued yesterday, used unprecedented language indicating a bitter private row. The panel is understood to have briefed counsel and was prepared to go to court - its ultimate sanction, but one never yet used.

The row with Butte dragged on. On Tuesday the company finally announced it was not "in the interests of shareholders to pursue this matter" and undertook to reissue the offending accounts. Privately, the panel is bound to feel, again, that its legal fighting fund is its greatest weapon. But why did the panel consider Butte's accounts merited such a tough response? Butte helped float Gem River Corporation, a Canadian mining company. Gem River hoped to extract sapphires and Butte was paid for its services in Gem River shares. The bulk of the shares, quoted on the Alberta Stock Exchange, could not be traded because the success of the mine was uncertain. About 85 per cent were held in an escrow account to be released when sapphires were found and sold. But Butte treated the shares as realised profits in its 1995 accounts. The panel said this could not be done with any certainty as the shares could not be traded.

profit hit

Camas in further US acquisition

By Andrew Taylor, Construction Correspondent

Camas, Britain's fifth largest aggregates group, is continuing its expansion in the US with the \$30m (£19.4m) purchase of Model Stone, which has a ready mix concrete business in Minneapolis-St Paul, Minnesota.

The UK company is already the largest aggregates and concrete block supplier to the twin cities,

but has lacked an ancillary ready mix business.

Model Stone, which operates four ready mix plants with a fifth under construction, also owns approximately 20 years of mineral reserves and a concrete block plant.

Camas said the purchase would consolidate its presence in the region. It would become one of three largest ready mix suppliers.

THIRD CALL FOR TENDERS FOR THE SALE OF THE GROUPS OF ASSETS OF "MINAIDIS-FOTIADIS WOOL INDUSTRY S.A." of Athens Greece. ETHNIKI KEPHALAIU S.A. Administration of Assets and Liabilities, of 9a, Chrysothessalon St., Athens, Greece, in its capacity as Liquidator of "MINAIDIS-FOTIADIS WOOL INDUSTRY S.A." a company having its registered office in Athens, Greece (the "Company"), currently under special liquidation according to the provisions of article 46a of Law 1892/1990 by virtue of Decision No 1018/94 of the Athens Court of Appeal, upon the instructions of the creditors representing more than 51% of the claims against the Company, announces a third call for tenders for the sale of any one or more of the assets described below, each one of which is being sold as a single entity. BRIEF INFORMATION The Company was established in 1943 and was in operation until 1988, when it was declared bankrupt. On 21.5.1989 it was placed under special liquidation (art. 7, of Law 1386/1983) and on 15.2.1994 under special liquidation according to art. 46a, of Law 1892/1990. Its activities included the manufacturing, setting and exporting of wool and blended fabrics. GROUPS OF ASSETS OFFERED FOR SALE 1st Group of Assets A spinning and weaving mill in the Athens area (between Iakovoson St. N. Iordis Avenue, S. Vintimidon St. and D. Ralli St.), consisting of several buildings covering 10,438 sq.m., standing on a plot of approximately 6,100 sq.m. and containing machinery, mechanical equipment and a limited amount of stock in trade. The company's registered name is also being offered for sale. It should be noted that according to Decision No. 951/1994 of the Council of the Municipality of Athens, the area of the mill has been declared of common use. The Liquidator has appointed against this Decision. 2nd Group of Assets A plot of land of approximately 617 sq.m., located beyond the city planning area, in the region of Koutouki on the island of Salamina. 3rd Group of Assets A plot of land of approximately 705 sq.m., located in the same area as the above. 4th Group of Assets A plot of land of approximately 457 sq.m., located beyond the city area, in the region of Aliki on the island of Salamina. OFFERING MEMORANDUM - FURTHER INFORMATION: Interested parties may obtain a copy of the Offering Memorandum in respect of the Company and its assets upon signing a Confidentiality Agreement. TERMS AND CONDITIONS OF THE AUCTION 1. The Auction shall take place in accordance with the provisions of article 46a of Law 1892/1990 (as supplemented by art. 14 of Law 2000/91 and subsequently amended) and the terms and conditions set forth herein as well as the "Terms and Conditions of Sale" contained in the Offering Memorandum. Such provisions and other terms and conditions shall apply irrespective of whether they are mentioned herein or not. Submission of binding offers shall mean acceptance of such provisions and other terms and conditions. 2. Binding Offers: Interested parties are hereby invited to submit binding offers, not later than Thursday, October 31st, 1996, 12:00 hours to the Athens Notary Public Mrs. Ioanna Gavrilis-Antagonistaidi, 18 Fildon St. 10678 Athens Tel: +30-1-2919729, Fax: +30-1-3825191. Offers should expressly state the offered price and the detailed terms of payment (in cash or instalments, mentioning the number of instalments, the dates thereof and the proposed annual interest rate if any). In the event of not specifying a way of payment, by whatever the offered amount shall bear interest and (c) the interest rate, then it shall respectively be deemed that as the offered price is payable upon execution of the sale contract. By the amount credited shall bear no interest and (c) the interest rate shall be the legal rate from time to time in force. In all cases where the offered amount bears interest, this shall be calculated in relation to the outstanding amount and shall be payable on the date of payment of each instalment. Should one wish to submit offers for one or more groups of assets, these should be submitted separately. Binding offers submitted later than the above date shall be neither accepted nor considered. The offers shall be binding until the adjudication. Submission of offers in favour of third parties to be nominated at a later stage shall be accepted under the condition that express mention is made in this respect upon submission and that the offeror shall give a personal guarantee in favour of such third party, for the compliance of the obligations deriving from the sale contract. 3. Letters of Guarantee: Binding offers must be accompanied by a Letter of Guarantee, issued in accordance with the sample Letter of Guarantee contained in the Offering Memorandum, by a bank legally operating in Greece, to remain valid until the adjudication. The Letters of Guarantee must be for the following amounts: (1st Group of Assets) DRS. FIFTY MILLION (50,000,000.-) (2nd Group of Assets) DRS. FIVE HUNDRED THOUSAND (500,000.-) (3rd Group of Assets) DRS. FIVE HUNDRED THOUSAND (500,000.-) (4th Group of Assets) DRS. FIVE HUNDRED THOUSAND (500,000.-) The Letters of Guarantee shall be returned after the adjudication. 4. Submissions: Binding offers together with the Letter of Guarantee shall be submitted in sealed opaque envelopes. Submissions shall be made in person or through a duly authorized agent. 5. Envelopes containing the binding offers shall be annotated by the above mentioned Notary Public in her office on Thursday, the 31st of October 1996, 14:00 hours. Any party having duly submitted a binding offer shall be entitled to attend and sign the deed attesting the acceptance of the binding offer. 6. As highest bidder for each group of assets shall be considered the participant, whose offer will be judged, by criteria representing over 51% of the claims against the Company (the "Creditors"), upon suggestion by the Liquidator, to be in the best interests of all of the creditors of the Company. For the purposes of evaluation, an offer to be paid in instalments shall be assessed on the basis of its present value, to be calculated by employing a 19% annual discount rate, compounded yearly. 7. The Liquidator shall give written notice to the highest bidder to appear on the date and place mentioned therein and execute the contract of sale in accordance with the terms contained in his binding offer and/or any other imposed terms, which may be suggested by the Creditors and agreed upon. In the event of the highest bidder not complying with such obligation, the Letter of Guarantee shall be forfeited as a penalty. Adjudication shall be deemed to take effect upon execution of the contract of sale. 8. All costs and expenses of any nature in respect of the participation in the Auction and the transfer of the assets offered hereby for sale shall be exclusively borne by the purchaser. 9. The Liquidator, the Company and the Creditors shall have no liability nor obligation whatsoever towards the participants in relation to the evaluation of the offers or any appointment of the highest bidder or any decision to reject or cancel the Auction or any decision whatsoever in connection with the Auction. The Liquidator or the Creditors shall have no liability, for any legal or actual defects of the assets. Submission of binding offers shall not create any right for the participant whose participation shall acquire any right, power or claim from this Call and/or the participation in the Auction against the Liquidator, the Company and/or the Creditors, for any reason whatsoever. 10. This Call has been drafted in Greek and translated into English. In any event, the Greek version shall prevail. To obtain the Offering Memorandum and for any further information please contact the Liquidator of the Company: ETHNIKI KEPHALAIU S.A. Administration of Assets and Liabilities, address: 9a, Chrysothessalon Street, 115 00 Athens, Greece, tel: +30-1-323.14.84, fax: +30-1-321.79.65 (attention of Mrs. Maria Frangaki), or the Liquidator's Agent Mr. Nicholas Panagoulas, 3, Voukourestou St., Athens 10564 Tel: +30-1-32.21.869 Fax: +30-1-32.54.121.

ISSUERS

INVESTORS

To bring together those who have money to invest with those who seek to raise it is a fundamental of international investment banking. To do so in primary and secondary markets with skill and strength, in a way and at a price that leaves both sides well satisfied, is a fundamental of BZW.

INTERNATIONAL CAPITAL MARKETS

Yield convergence continues

GOVERNMENT BONDS

By Samar Iskandar and Richard Lapper in London and Lisa Branstetter in New York

Focus on Emu bolsters Liffe

The latest bout of Emu-related bullishness played a significant role in helping Liffe set a new record of 14.1m contracts last month, up 12 per cent from September 1995...

Mr Daniel Hodson, chief executive of Liffe, said: "Increased focus on Emu... [and] greater volatility following Italian budgetary announcements have led to the busiest September ever."

All records on individual contracts occurred on Italian products, on September 27 - the day the 1997 budget plan was announced.

Three-month eurofutures set a daily record of 81,628 lots, bringing the monthly volume to an all-time high of 717,438 contracts.

Options on the three-month eurofutures follow a similar pattern, setting a daily record of 22,750 contracts and a monthly record of 188,928 contracts.

Options on the BTP future reached a daily all-time high of 38,119 contracts.

Bear Stearns analysts reported the December 1997 contract should be discounted a 250 basis point easing, while Ms Juli Collins-Thompson, economist at Yamaichi in London, says the government has space to reduce the 8.25 per cent discount rate by 2 percentage points over the next 12 months.

Ms Collins-Thompson has amended her forecasts for the 10-year yield spread over Germany, which she expects to fall to 500 basis points within the next three months and 130 basis points within a year.

Mr Robert Stewart, fund manager with Matheson Investment Management, is also optimistic, saying the spread could fall as low as 150 basis points by the end of the year.

However, other analysts said yesterday that the convergence process was vulnerable to external shocks.

Ms Sharda Persaud, an economist at San Paolo Bank in London, warned about the impact of a weakening dollar or a tightening of monetary policy by the US Federal Reserve.

and the market seemed increasingly convinced that "including the high-yielders in Emu is not necessarily bad".

But Ms Phyllis Reed, European bond strategist at BZW, said there "remains the possibility of a correction in the spread against 10-year US Treasuries, which could go back into positive territory if investors feel there is an inflationary risk from widening Emu to non-core countries".

At present, the spread is minus 70 basis points.

US Treasury prices advanced in early trading in the wake of a rising dollar and optimism that the Federal Reserve would refrain from raising interest rates this year.

The yield on the two-year note slipped below 6 per cent for the first time since August 29, as the market continued to react to reports that Mr Alan Greenspan, chairman of the Fed, is not worried about inflation.

The Australian Financial Review reported Mr Peter Costello, the Australian treasurer, as saying Mr Greenspan had made such remarks to him at a meeting in Washington.

Near midday, the benchmark 30-year Treasury had gained 3/8 to 9 1/8 to yield 6.555 per cent, while the two-year note added 1/8 to 100, yielding 5.983 per cent.

The December 30-year bond future was up 1/8 at 110 1/4.

The curve that maps the spread between the yields on the two-year note and the long bond steepened by one basis point to 85 basis points as the yield on the note declined by more than that of the long bond.

The continued rise of the dollar against the yen and the D-Mark also contributed to bond market strength. In early afternoon trading, the US currency was at Y111.72 and DM1.6308, against Y111.44 and DM1.6294 late on Tuesday.

World Bank in zero coupon lira deal

INTERNATIONAL BONDS

By Corinne Middelmann

The fast-growing market in lira-denominated zero-coupon bonds saw another successful addition yesterday, a L1,000bn issue of 20-year bonds for the World Bank.

Although the lira market has seen a spate of zero-coupon transactions in recent months - including L4,000bn of 30-year bonds for Deutsche Bank and last week's 15-year deal for the European Investment Bank - dealers said it is far from saturated amid overwhelming demand for long-dated, zero-coupon lira assets.

Demand is being driven mainly by Italian retail investors who want to lock in current returns in an environment of rapidly falling yields. Italian interest rates have been tumbling in the latest government bond market rally, which has been fuelled by hopes that Italy may be among the first European countries to join the euro monetary union.

In addition, many professional traders have been attracted by the high gearing of the bonds. "Anyone who wants to take a convergence bet will get more bang for his buck by buying 20- to 30-year zeros at a deep discount," one dealer said.

Meanwhile, for only a small cash outlay, "Italian retail investors wishing to save up for their retirement can lock in current interest returns for a long time", said a syndicate manager at Credit Italiano, joint lead with Citibank. The World Bank's bonds were re-offered at 21.25 per cent of face value.

New international bond issues

Table with columns: Issuer, Amount, Coupon, Price, Maturity, Yield, Spread, Book-runner. Includes entries for US Dollars, French Francs, and Italian Lira.

First issues, non-callable unless stated. Yield spread (over relevant government bond) at launch specified by lead manager. *Unlisted. **With equity warrants. †Floating-rate note. ‡\$50m annual coupon. §Fixed rate. ¶Call date from 9/10/96 at par. ††Call date from 9/10/96 at par. †††Call date from 9/10/96 at par. ††††Call date from 9/10/96 at par. †††††Call date from 9/10/96 at par.

Moreover, zeros do not bear the reinvestment risk of coupon bonds. "If you buy a zero-coupon bond, you are protected from the risk of having to reinvest your coupon flow at declining rates as all the income is already priced into the deep discount," one dealer said.

Bonds issued by the World Bank and the EIB are especially favoured by Italian retail investors as they are exempt from inheritance tax - an important consideration with an issue of 20-year bonds.

The syndicate manager said the bulk of the deal was being sold to retail investors through Credit Italiano's branches. The bonds closed at 21.50 bid, up 0.21 from the re-offer price.

The World Bank's transaction all but eclipsed a L300bn issue of seven-year bonds, callable after four years, for Oesterreichische Postsparkasse. A L500bn five-year straight bond for the EIB got a warmer reception. "There was a need for a new plain-vanilla, non-zero coupon bond," said a dealer.

The dollar sector also had a busy day. Argentina's \$700m global bond, launched Tuesday, was increased to \$1.25 billion and priced at 44 1/2 basis points over Treasuries; the bank's tightened quickly to 45 1/2 basis points.

Also in Latin America, Bear Stearns launched \$1.25bn of floating-rate notes under the US Rule 144a on behalf of the billionaire Dart family. The deal securitises all of Brazil's remaining multi-year deposit facility agreement (Mydia) loans not restructured as Brady bonds. The Dart family did not convert their holdings, making them the last holders of the Brazilian debt.

The US Federal National Mortgage Association issued \$500m of global five-year bonds callable after two years. Merrill Lynch, joint lead with Lehman Brothers, reported good demand and said it placed just over half outside the US.

The dollar sector also two five-year floating-rate notes: \$250m for Bankers Trust and \$200m for Korea's Cho Hung Bank. Bankers Trust's notes, yielding 14 basis points over Libor at the re-offer, were deemed expensive. The bank has FRNs outstanding which trade at 18 over Libor - the same spread the new bonds widened to in the course of the session.

However, according to lead manager Salomon Brothers, "there is strong demand for anything that has some yield on it, and Bankers Trust is an improving credit - the bad news is out of the way". The Cho Hung issue held up better, helped by strong demand for Korean assets and country risk. OECD membership this month. OECD membership would make Korean assets 20 per cent risk-weighted rather than the current 100 per cent. "We had several European accounts asking for Korean bank paper, and built the deal around that," said a syndicate manager at lead manager Deutsche Morgan Grenfell. The notes yielded 23 basis points over Libor at the re-offer, widening by 1 basis point in late trading.

Petronas, Malaysia's national oil company, plans to raise \$1bn on the international bond market. The issue, expected to be split into five-year and 10-year tranches, is likely to set a benchmark for Asian and Malaysian credits. CS First Boston and Salomon Brothers are joint leads.

BENCHMARK GOVERNMENT BONDS

Table with columns: Country, Coupon, Red Date, Price, Day's change, Yield, Week ago, Month ago. Includes Australia, Austria, Belgium, Canada, Denmark, Germany, France, Italy, Japan, Netherlands, Portugal, Spain, Sweden, UK Gilts, US Treasury, and EU Financial Govt.

London closing, New York mid-day. Yields: Local market standard. † Cross including withholding tax at 25.5 per cent payable by nonresidents. Source: M&S International

US INTEREST RATES

Table with columns: Instrument, Rate, One month, Two month, Three month, Six month, One year, Two year, Three year, Five year, Ten year, Thirty year.

BOND FUTURES AND OPTIONS

Table with columns: Instrument, Open, Settle, Price, Change, High, Low, Est. vol., Open Int. Includes National French Bond Futures, Long Term French Bond Options, National German Bond Futures, and US Treasury Bond Futures.

UK GILTS PRICES

Table with columns: Maturity, Bid, Offer, Price, Change, High, Low. Includes Short-term (Lives up to Five Years), Intermediate, and Long-term.

Five to Fifteen Years: 5.50, 5.50, 100%, -1, 101.2, 5.50. Ten to Fifteen Years: 5.75, 5.75, 100%, -1, 101.5, 5.75. Long-term: 7.50, 7.50, 100%, -1, 101.8, 7.50.

BOND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Table with columns: Instrument, Open, Settle, Price, Change, High, Low, Est. vol., Open Int. Includes National Italian Govt. Bond, National Spanish Bond Futures, and National Long Term Japanese Govt. Bond Futures.

UK Gilts

Table with columns: Instrument, Open, Settle, Price, Change, High, Low, Est. vol., Open Int. Includes National UK Gilts Futures and Long Gilts Futures Options.

EU

Table with columns: Instrument, Open, Settle, Price, Change, High, Low, Est. vol., Open Int. Includes Euro Bond Futures.

US

Table with columns: Instrument, Open, Settle, Price, Change, High, Low, Est. vol., Open Int. Includes US Treasury Bond Futures.

Japan

Table with columns: Instrument, Open, Settle, Price, Change, High, Low, Est. vol., Open Int. Includes National Long Term Japanese Govt. Bond Futures.

Other Fixed Interest

Table with columns: Instrument, Bid, Offer, Price, Change, High, Low. Includes various international fixed interest instruments.

FTSE Actuaries Govt. Securities

Table with columns: Price Index, UK Gilts, US Treasuries, etc. Includes 1 Up to 5 years, 2 5-15 years, etc.

FT Fixed Interest Indices

Table with columns: Instrument, Oct 2, Oct 1, Sep 30, Sep 27, Sep 25, etc. Includes Govt. Secs, FTSE International, etc.

FT/ISMA International Bond Service

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on October 2.

Large table listing international bonds with columns: Issued, Bid, Offer, Ctg, Yield, etc. Includes US Dollar Straights, D-Mark Straights, etc.

UK Indices

Table with columns: Instrument, Oct 2, Oct 1, Sep 30, Sep 27, Sep 25, etc. Includes Low coupon yield, Medium coupon yield, High coupon yield.

Glit Edged Activity Indices

Table with columns: Instrument, Oct 1, Sep 30, Sep 27, Sep 25, etc. Includes Gilts, Euro, etc.

Floating Rate Notes

Table with columns: Instrument, Issued, Bid, Offer, Ctg, Yield, etc. Includes various floating rate notes.

Convertible Bonds

Table with columns: Instrument, Issued, Bid, Offer, Ctg, Yield, etc. Includes various convertible bonds.

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CURRENCIES AND MONEY

Yen and D-Mark suffer over Emu optimism

MARKETS REPORT

By Richard Adams

Booming bond markets in the US and Europe, helped by bullish sentiment over prospects for a European single currency, yesterday pushed higher-yielding currencies up at the expense of the yen and the D-Mark.

Sterling soared to a two-year high against the D-Mark, finishing the day in London at DM2.3885, up from the previous day's close at DM2.3872.

Sterling also rose to \$1.5675, up from \$1.5646, as its trade-weighted index reached a peak for the year of 87.3.

Short sterling contracts also rose across the board. March 1997 contracts broke

resistance at 98.90, and reached 93.92.

The dollar hit a 39-month high against the yen of over Y112 in intra-day trading, before closing at Y111.760, up from Y111.295.

Meanwhile, convergence trading in peripheral European currencies over possible membership of European monetary union (Emu) continued to boost the lira.

Italy's surging bond market took the lira to L985.7 against the D-Mark, its highest level for two years.

The Swedish krona also advanced to its best level against the D-Mark recently. It rose to SKr4.323 against the D-Mark, from SKr4.344.

Bank markets and convergence trades have been the main focus of interest for the

currency markets in the last two weeks. "The bond tail has been wagging the currency dog," said one foreign exchange analyst this week.

Mr Paul von Maydell, senior currency economist at UBS in London, said: "The big feature has been on the one hand, convergence trading in Europe, and on the other, balling out of low-yield currencies and plunging into high-yielding currencies."

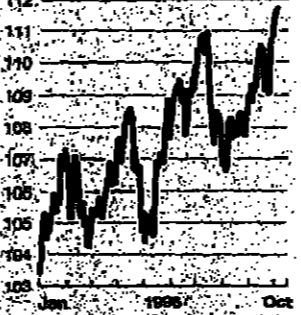
That has been the case in Italy, where Italian bond futures reached record highs as market optimism grew over Italy's Emu prospects.

The December Life contract finished a day of extraordinary gains at 123.55, fractionally below a record high for the contract of 123.93 reached in late afternoon.

Mr von Maydell said that while the lira was probably not overvalued at around L1,000, he thought the market's optimism was excessive for interest rate futures.

Dollar

Against the Yen (¥ per \$)



"The market is looking for the lira to enter Emu, if not in the first round then by 2001, coming in at levels that cannot be justified on Italy's past inflation record," he said.

In Mr von Maydell's view, much of the market bullishness for the higher yielding currencies was driven by political matters. "The perception of solidarity between the political leaders in

Europe is so great, and confidence is so great, that it doesn't matter what the deficits are, there's a sense that 'this thing is going through'."

Mr Tony Norfield, treasury economist at ABN Amro Bank in London, said the fall of the "Emu axis" currencies of France and Germany made sterling look an attractive long position against the D-Mark. "Sterling is a relatively low risk way of selling D-Marks," Mr Norfield said.

He reiterated his view that Europe may wish to consider delaying the launch of Emu. "A conditioned waiting for the currency union would not be a catastrophe," Mr Koebnick said, adding it would be worth considering whether the goals "would not be more in reach if one waited another year or two."

Mr Koebnick's statement failed to rattle the market. "There's sentiment in the market about the Bundesbank, that they can say what they like, but they're not going to be in charge," Mr Norfield said.

For the latest market update, ring FT Cityline on +44 990 209909

OTHER CURRENCIES

Table with columns for currency, rate, and change. Includes entries for Euro, Swiss Franc, and others.

WORLD INTEREST RATES

Table showing interest rates for various countries and currencies, including Belgium, France, Germany, Italy, Netherlands, and others.

EURO CURRENCY INTEREST RATES

Table showing interest rates for Euro currency instruments, including Belgium, Denmark, France, Germany, and others.

POUND SPOT FORWARD AGAINST THE POUND

Table showing pound spot and forward rates against the pound for various countries and currencies.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table showing dollar spot and forward rates against the dollar for various countries and currencies.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Table showing exchange cross rates for various currencies.

D-MARK FUTURES (DM 125,000 per DM)

Table showing D-Mark futures data.

SWISS FRANC FUTURES (Sfr 125,000 per Sfr)

Table showing Swiss Franc futures data.

UK INTEREST RATES

LONDON MONEY RATES

Table showing London money rates.

UK clearing bank base lending rate 5% per cent from June 8, 1996

UK clearing bank base lending rate 5% per cent from June 8, 1996

THREE MONTH STERLING FUTURES (LIFE) £500,000 points of 100%

Table showing three month sterling futures data.

SHORT STERLING OPTIONS (LIFE) £500,000 points of 100%

Table showing short sterling options data.

BASE LENDING RATES

Table showing base lending rates for various banks.

EMU EUROPEAN CURRENCY UNIT RATES

Table showing EMU European currency unit rates.

NON-EMU MEMBERS

Table showing non-EMU members data.

THREE MONTH EURO-DOLLAR (MM) \$1m points of 100%

Table showing three month Euro-dollar data.

US TREASURY BILL FUTURES (MM) \$1m per 100%

Table showing US Treasury bill futures data.

EUROBANK OPTIONS (LIFE) DM1m points of 100%

Table showing Eurobank options data.

EURO SWISS FRANC OPTIONS (LIFE) Sfr 1m points of 100%

Table showing Euro Swiss Franc options data.

EUROLIRA OPTIONS (LIFE) L1000m points of 100%

Table showing EuroLira options data.

Advertisement for VETIS car components, featuring a list of manufacturers like Alfa Romeo, Audi, and Fiat, and a large graphic of a car.

COMMODITIES AND AGRICULTURE

Aluminium industry hails the can with a thousand faces

By Kenneth Gooding, Mining Correspondent

The aluminium industry was yesterday heralding its latest breakthrough - the beverage can that no longer looks like a can. Coca Cola is test marketing in the US a can shaped to resemble as closely as possible its traditional fluted bottle.

Legrand, chairman of the European Aluminium Association, yesterday said: "This will certainly strengthen the position of the aluminium can against other, competing, beverage containers."

From the aluminium industry's point of view the timing of the breakthrough could not be more opportune. The aluminium beverage can has been suffering intense competition from other containers, particularly from PET, a polyester-based plastic used for bottles.

For a great deal of future growth as its popularity spreads to other parts of the world. In the US nearly every beverage can is made from aluminium but the can is suffering an image problem among younger people there.

Mr Legrand said yesterday he was confident that "aluminium will remain the preferred material of the can makers in Europe". The metal still had the biggest market share, having moved up in the past ten years from 37 per cent of the beverage can market to 55 per cent last year.

Demand expected to pick up after poor start

By Kenneth Gooding

Western world demand for aluminium is likely gradually to pick up during the remainder of this year after a very poor start, Mr Bernard Legrand, chairman of the European Aluminium Association, told reporters at the association's annual press briefing in Brussels yesterday. This should leave

the market roughly in balance, he said, even after an expected 5 per cent increase in production in the west and with imports from eastern Europe remaining at about 3m tonnes.

When questioned about his formal presentation, he said he could see a similar, balanced situation, in 1997 but with supply tightening towards the year-end. Nevertheless, with about 1m tonnes of aluminium smelting capacity still shut down, any tightness was unlikely to push prices up sharply.

1995 western European aluminium production was 3.2m tonnes, some 2.6 per cent above the 1994 level, while consumption of the metal increased by only 1.9 per cent, more or less in line with general economic development in Europe, from 5.15m to 5.25m tonnes.

In 1995 consumption of rolled aluminium products in Europe was about 2.87m tonnes, 1.4 per cent higher than in 1994. In the first half of 1996 demand dropped by about 6 per cent but some recovery was expected at the year end.

Copper prices steadier

MARKETS REPORT

COPPER prices settled at firmer levels on the London Metal Exchange yesterday afternoon after several days of highly volatile trading. The three months delivery price stabilised above the \$1,900-a-tonne mark in thin market conditions shooting to nearly \$2,000 last Friday and falling back to \$1,875 in inter-office business late on Tuesday.

but the three month ALUMINIUM price remained trapped below \$1,400 a tonne. NICKEL prices managed a healthy bounce, the three months-a-tonne probing the \$7,100-a-tonne barrier on the kerb and ending \$80 higher at \$7,050.

despite modest short-term gains, several dealers and analysts suggested. The strong dollar and booming US stock and bond markets were discouraging investor interest while physical demand was on hold until prices had obviously bottomed out, they explained.

As zinc miners and smelters prepare for their next "main season" moves are afoot to attempt a redistribution of price risk exposure in next year's annual contracts, according to Mr Roger Brain, vice-president sales and marketing at Cominco, reports Reuters from New York.

Mr Brain said some business based on a redistribution of price risk was concluded last year, but the debate only took off after the end of the 1996 contracts were signed. "We are looking for this year to be more meaningful," he said.

Copper prices steadier

Last business yesterday's after hours "kerb" session was at \$1,918 a tonne, up \$28 from Tuesday and just off a high of \$1,922.

When the New York market opened on Tuesday, it pushed the price down, they covered their shorts."

The zinc and lead concentrates trading season starts at London Metal Exchange week in London next week with minds focusing on supply and demand at the International Lead and Zinc Study Group meeting in Vienna on October 10.

Mr Brain said some business based on a redistribution of price risk was concluded last year, but the debate only took off after the end of the 1996 contracts were signed. "We are looking for this year to be more meaningful," he said.

Cominco is the world's biggest zinc miner, producing 1m tonnes of concentrates this year. Its huge Red Dog mine in Alaska, which produces lead and zinc concentrates, will raise output by 40 per cent from the second half of 1996.

COMMODITIES PRICES

BASE METALS

Table with columns: Metal, Price, Change, High, Low, Vol, Open. Includes Aluminium, Copper, Lead, Tin, Zinc.

Precious Metals continued

Table with columns: Metal, Price, Change, High, Low, Vol, Open. Includes Gold, Silver, Platinum, Palladium.

GRAINS AND OIL SEEDS

Table with columns: Commodity, Price, Change, High, Low, Vol, Open. Includes Wheat, Corn, Soybeans, Maize.

SOFTS

Table with columns: Commodity, Price, Change, High, Low, Vol, Open. Includes Cocoa, Coffee, Sugar.

MEAT AND LIVESTOCK

Table with columns: Commodity, Price, Change, High, Low, Vol, Open. Includes Live Cattle, Live Hogs, Pork Bellies.

ENERGY

Table with columns: Commodity, Price, Change, High, Low, Vol, Open. Includes Crude Oil, Heating Oil, Natural Gas.

PRECIOUS METALS

Table with columns: Metal, Price, Change, High, Low, Vol, Open. Includes Gold, Silver, Platinum, Palladium.

FUTURES DATA

Table with columns: Commodity, Price, Change, High, Low, Vol, Open. Includes Wheat, Corn, Soybeans, Maize.

INDICES

Table with columns: Index, Price, Change, High, Low, Vol, Open. Includes S&P 500, Nikkei, FTSE 100.

LONDON SPOT MARKETS

Table with columns: Commodity, Price, Change, High, Low, Vol, Open. Includes Brent Blend, WTI, Crude Oil.

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Go-ahead given for Queensland gold project

By Kenneth Gooding, in Denver

The go-ahead has been given for the US\$40m Vera-Nancy gold mine in Queensland, Australia, which is now expected to pour its first gold only 17 months after the deposit was discovered.

costs are estimated to be US\$130 an ounce over the ten year life of the mine. Additional exploration was expected to increase the mine's life.

Also on the list of next year's new producers is the Pipeline project in Nevada, jointly owned by Placer Dome of Canada and RIZ-CRA, the Anglo-Australian group. The partners have decided to dovetail the start of production at two deposits so that the combined annual output will be 440,000 ounces instead of the 310,000 originally envisaged.

Other mines due to begin production in 1997 include Lühr, in Papua New Guinea, which will produce 584,000 ounces annually in the early years; Fort Knox, a 350,000 ounce a year venture in Alaska, owned by Amex Gold; and Sunrise Dam in Western Australia, which the owner, Acacia, expects to produce 100,000 ounces a year.

The speed at which the mine, voted Australia's "discovery of the year" in 1995, is being put into production is another illustration of the industry's present dash for growth. Vera-Nancy is only one among many. At least four other gold mines are scheduled to start up next year and were mentioned by presenting companies at the Denver Gold Group's forum.

Vera-Nancy is 50-50 owned by Battle Mountain Gold of the US and Normandy of Australia, which will operate the mine. They announced their decision to develop the mine, which is scheduled to produce 100,000 Troy ounces of gold a year from underground ore at full capacity, at the forum. Normandy said the first gold would be poured in February and full output should be reached in August. Cash production

Barrick shelves Peru plan

By Bernard Simon in Toronto

Canada's Barrick Gold has shelved plans to develop the 75 per cent-owned Cerro Colorado gold and copper property in Peru.

Barrick has gained access to more promising properties in Peru through its recent acquisition of Arequipa Resources. It has also begun work a mine on the Quebrada de Pasqua deposit in Chile's El Indio gold belt.

It said the property, located in Cajamarca province, contained "substantial" mineralisation, but that it was not sufficient to justify a mine. Cerro Colorado was expected to contain 8m Troy ounces of gold, at a grade of 0.03 ounces a tonne, and 1bn lb of copper, grading 0.6 per cent.

These projects "have the potential to make much more significant additions to reserves and production", Barrick said. Analysts said the decision to abandon Cerro Colorado was expected. Barrick will charge US\$38m after tax against third-quarter earnings to reflect the project's costs.

JOTTER PAD

Table with columns: Commodity, Price, Change, High, Low, Vol, Open. Includes various metals and grains.

LONDON TRADED OPTIONS

Table with columns: Commodity, Price, Change, High, Low, Vol, Open. Includes Aluminium, Copper, Coffee, Sugar.

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LONDON SPOT MARKETS

Table with columns: Commodity, Price, Change,

FT MANAGED FUNDS SERVICE

FT Cytiva Unit Trust Prices are available over the telephone. Call the FT Cytiva Help Desk on (444 771) 873 4378 for more details.

Table listing various FT Managed Funds, including categories like Global, Asia Pacific, and Emerging Markets. Columns include fund name, price, and performance metrics.

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Advertisement for Imperial Cancer Research Fund. Includes text: 'Every day, we help thousands of people like Zoe fight cancer.' and a form for donations.

OTHER OFFSHORE FUNDS. Table listing various offshore funds with columns for fund name, price, and performance.

MANAGED FUNDS NOTES. Text providing information about the funds, including details on charges, performance, and contact information.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector with columns for company name, price, and change.

CHEMICALS - Cont.

Table listing companies in the Chemicals sector (continued) with columns for company name, price, and change.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Table listing companies in the Electronic & Electrical Equipment sector (continued) with columns for company name, price, and change.

EXTRACTIVE INDUSTRIES - Cont.

Table listing companies in the Extractive Industries sector (continued) with columns for company name, price, and change.

HOUSEHOLD GOODS - Cont.

Table listing companies in the Household Goods sector (continued) with columns for company name, price, and change.

INVESTMENT TRUSTS - Cont.

Table listing investment trusts with columns for company name, price, and change.

BANKS, MERCHANT

Table listing banks and merchant companies with columns for company name, price, and change.

DISTRIBUTORS

Table listing distributor companies with columns for company name, price, and change.

ENGINEERING

Table listing engineering companies with columns for company name, price, and change.

FOOD PRODUCERS

Table listing food producer companies with columns for company name, price, and change.

INSURANCE

Table listing insurance companies with columns for company name, price, and change.

INVESTMENT TRUSTS

Table listing investment trusts with columns for company name, price, and change.

BANKS, RETAIL

Table listing banks and retail companies with columns for company name, price, and change.

DIVERSIFIED INDUSTRIALS

Table listing diversified industrial companies with columns for company name, price, and change.

ENGINEERING, VEHICLES

Table listing engineering and vehicle companies with columns for company name, price, and change.

EXTRACTIVE INDUSTRIES

Table listing extractive industry companies with columns for company name, price, and change.

HOUSEHOLD GOODS

Table listing household goods companies with columns for company name, price, and change.

INVESTMENT TRUSTS SPLIT CAPITAL

Table listing investment trusts with split capital with columns for company name, price, and change.

BREWERIES, PUBS & REST

Table listing breweries, pubs, and restaurants with columns for company name, price, and change.

ELECTRICITY

Table listing electricity companies with columns for company name, price, and change.

ENGINEERING - Cont.

Table listing engineering companies (continued) with columns for company name, price, and change.

FOOD PRODUCERS - Cont.

Table listing food producer companies (continued) with columns for company name, price, and change.

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Table listing insurance companies with columns for company name, price, and change.

INVESTMENT TRUSTS

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BUILDING & CONSTRUCTION

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ENGINEERING - Cont.

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By meeting customer needs, Rockwell has become a world leader in components and systems for cars, trucks and trailers.



هكذا من الأفضل

LONDON STOCK EXCHANGE

FTSE 100 cruises through the 4,000 level

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

UK shares sprinted to new peaks yesterday, propelled to new highs by a wave of domestic and overseas cash. The FTSE 100, the most popular index, cruised through the 4,000 level and finished the day well clear of that figure.

moved up to a new record of 1,971.32, while other measures - the FTSE 250 and FTSE SmallCap - were sharply higher. The 250 was finally 24.4 up at 4,434.2, still 134.4 short of its all-time high, reached in April this year.

Mr Philip Isherwood, UK equity market strategist at Kleinwort Benson, who recently upped his FTSE 100 end-year forecast to 4,200 insisted "the directional risks in UK equities are still on the upside. It's a 4,200 next stop."

Dealers said there was every chance the market would continue its strong run. "We've bro-

ken through the big resistance level of 4,000, and it looks like we'll run on. There are plenty of institutions starting to get very uneasy about being underweight in UK stocks and they are starting to chase the market and pay up for quality stocks," said one marketmaker. "It's the same old story, they are buying on the blue."

Aside from the good fundamentals driving the market - institutions full of cash at the start of the fourth quarter, excellent profits and dividend prospects for the leaders; a low inflation/good growth scenario - the market was increasingly excited at the prospects of more big activity.

A story circulating around dealing rooms after the close suggested a dawn raid on a FTSE 100 or 250 stock was imminent, with Imperial Tobacco, newly demerged from the Hanson Group, suggested as one possibility.

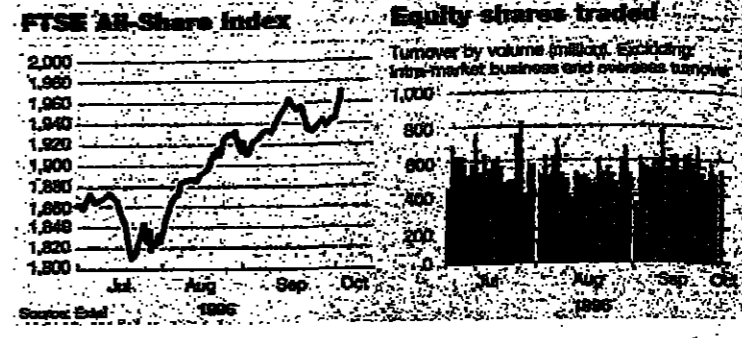
Imperial advisers said there was no evidence of a potential bidder lurking in the wings. The rise in Imperial shares was attributed to UK marketmakers having to chase stock in the absence of any sizeable flowback of stock from US investors.

Footsie was perfectly positioned to launch its attack on 4,000, with the previous night's after-hours performance by the

future suggesting the index would open just above that level. But with the additional boost of Wall Street's overnight strength, which saw the Dow Jones Industrial Average race through 5,900 to yet another record, and US Treasury bonds move sharply higher, Footsie easily cleared its big hurdle.

It peaked at 4,016.4, before slipping off its best in mid-afternoon, despite the Dow putting on another powerful display.

The upward march by equities gave a boost to turnover, which at the 6pm reading was 835.5m shares, the highest for many weeks. Customer business on Tuesday was valued at £150m.



Indices and ratios table showing FTSE 100, FTSE 250, FTSE 350, FTSE All-Share, and FTSE All-Share yield with their respective values and changes.

Best performing sectors table listing Oil Exploration, Oil Integrated, Mineral Extraction, Banks/Merchant, and Tobacco with their percentage changes.

Equity shares traded table showing turnover by volume and value for various sectors like Chemicals, Food, and Retail.

Worst performing sectors table listing Electronic & Elec, Diversified Inds, Alcoholic Beverages, Media, and Transport with their percentage changes.

Enterprise leads oils higher

By Steve Thompson, Joel Kibazo and Lisa Wood

Traditionally a favourite sector with US and other overseas investors, the oil stocks were in the forefront of the market's upsurge, with an initial burst of strength in crude oil prices followed by keen buying of individual stocks.

"A number of institutions holding back from the sector recently and with the FTSE 100 marching through the 4,000 level, they finally cracked and started to buy the sector," said one oil specialist.

He also said that big institutions seeking to push cash into London would pick on the big international stocks in order to build country weightings.

Enterprise Oil led the FTSE 100 pack for much of the session, eventually settling for second place in the performance table and closing 17 ahead at 571p - the stock's highest closing level since April 1991. Turnover of 2.7m shares was much higher than normal levels in the stock.

The company is taking oil sector analysts on a visit to its Italian exploration interests next week and dealers took the view that any news from the trip will not be bad news.

Lasmo was also in demand, the shares climbing 6 to 225p, the highest closing level since April 1992.

The majors were aggressively bought by US investors, with BP blasting through its previous all-time high and closing 1 1/2 firmer at a record closing high of 665 1/2p.

Shell also closed at a new peak, with bulls of the stock battling to drive the share price over the £10 mark and falling by the narrowest margin - a halfpenny - although it still closed 12 firmer at 997 1/2p.

The action was not confined to the leaders. Cairn Energy raced up 23 to a record close of 396 1/2p after news of its proposed merger with Australia's Command Petroleum. British Borneo, meanwhile, surged 2 1/2 to a peak of 671 1/2p as institutions became increasingly excited with the latest exploration success off Louisiana in the Gulf of Mexico.

Scottish banks occupied two of the top three positions among the best performers in the Footsie.

Shares in Bank of Scotland gained 9 to 264 1/2p, as dealers cheered interim figures at the top end of market expectations. Turnover was a hefty 31m, its second busiest daily session on record.

Analysts moved to upgrade full year profit expectations. Long time bull BZW was among those that raised their forecast. It now predicts full year profits of £60m, against a previous

forecast of £63m. Suggesting it now expects dividends to grow by 19 per cent. BZW upgraded its payout estimate from 8p to 6.15p a share.

Royal Bank of Scotland was also a feature. The shares surged 16 to 516 1/2p, as bid speculation once again surrounded the stock. Volume was 2.8m by the close.

In the rest of the sector, a two way pull in Barclays left the shares a penny lighter at 948 1/2p, while National Westminster was in demand and the shares added 9% to 701 1/2p. Both stocks were heavily dealt in the traded options.

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The shares rose 11% to 254p - the best individual Footsie performance of the day. Volume was 11m.

Henderson Crosthwaite was one of the main buyers of the stock and the broker was cheered that the shares had broken through its previous target of 250p.

Explaining his positive stance on the stock, Mr Brian Newman at Henderson said simply: "Trading conditions on the broad front at Rolls are proving attractive to investors." He set a new target for the stock of 280p a share.

Imperial whippers As the session drew to a close, there were vague whispers of a dawn raid at Imperial Tobacco which only returned to the market on Tuesday. Shares in the group continued in favour and broke through the 400p barrier to close 10% ahead at 404p. Volume was 9.5m.

United News & Media slipped 1 1/2 to 665p because of uncertainty over its intentions towards ETV and Bleheim, which both announced interim results ahead of expectations.

The market is concerned that should United go for both it may over-stretch itself. In addition, there are fears that it could get into a tussle with Carillon Communications, which is also said to be looking at ETV. HTV softened 1 1/2 to 355p, with HSBC James Capel changing its recommendation from "buy" to "hold".

Disappointment that Bleheim, which is understood to be in takeover talks with about three companies, did not make an announcement concerning its future at its interim results meeting, was responsible for it weakening a penny to 415p. EMI Group fell 15% to

1381p after HSBC James Capel cut its forecast for the group.

Kwik Save, the food retailer which is currently reviewing its strategy, climbed 1 1/2 to 330p on speculation - described by one analyst as highly unlikely - that it might be considering a merger with Iceland, which also faces problems in the high street where the big supermarkets are continuing to take market share. Iceland added 3 to 89 1/2p.

Burn Stewart Distillers fell 10 to 81 1/2p after the company announced the publication of preliminary results for the year ended June 30 had been delayed, pending the resolution of accounting issues.

LONDON STOCK ISSUES: EQUITIES Table listing various stock issues with columns for issue amount, price, and other financial metrics.

FT GOLD MINES INDEX Table showing gold mine indices for various regions like Africa, Australia, and North America.

FTSE Actuaries Share Indices Table listing various share indices like FTSE 100, FTSE 250, FTSE 350, etc.

FTSE Actuaries Industry Sectors Table listing various industry sectors like Mineral Extraction, Chemicals, etc.

FTSE 100 INDEX FUTURES (LIFE) 225 per full index point (APT) Table with columns for Dec, Mar, Jun, and Sep.

FTSE 250 INDEX FUTURES (LIFE) 210 per full index point Table with columns for Dec, Mar, Jun, and Sep.

FTSE 100 INDEX OPTION (LIFE) 4015 £10 per full index point Table with columns for Dec, Mar, Jun, and Sep.

EURO STYLE FTSE 100 INDEX OPTION (LIFE) 4015 £10 per full index point Table with columns for Dec, Mar, Jun, and Sep.

TRADING VOLUME Table listing major stocks with their trading volume and percentage change.

Major Stocks Yesterday Table listing major stocks like BT, ASDA Group, etc.

Major Stocks Yesterday Table listing major stocks like BT, ASDA Group, etc.

Major Stocks Yesterday Table listing major stocks like BT, ASDA Group, etc.

THE DAVID THOMAS PRIZE advertisement with large stylized text and a description of the prize.

David Thomas was a Financial Times journalist killed on assignment in Kuwait in April 1991. Before joining the FT he had worked for, among others, the Trades Union Congress.

His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge, particularly in the fields of industrial policy, third world development and the environment.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break.

In this, the sixth year of the prize, the theme is: "Home Truths from Abroad": A policy idea from outside the UK for the next British Prime Minister. The 1997 prize will be worth not less than £3,000.

Applicants, aged over 21, of any nationality, should submit a typed entry of up to 800 words in English, together with a brief c.v. and a proposal outlining how the award would be used to explore the theme further. Please keep David Thomas's interests in mind when writing both the entry and the proposal.

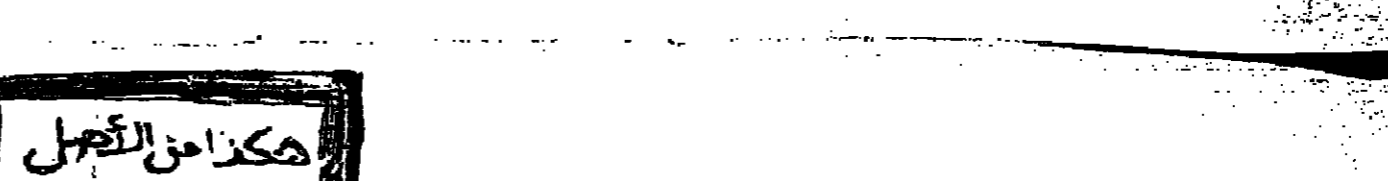
The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the FT.

CLOSING DATE JANUARY 5 1997

APPLICATIONS TO: ROBIN PAULEY, MANAGING EDITOR THE FINANCIAL TIMES (Dept DTP) NUMBER ONE SOUTHWARK BRIDGE LONDON SE1 9HL

Large table containing FTSE Actuaries Share Indices, FTSE Actuaries Industry Sectors, and FTSE 350 Industry baskets with detailed financial data.

FTSE INTERNATIONAL logo and contact information.



WORLD STOCK MARKETS

Table of stock market data for various regions including Europe, Asia, and Oceania. Columns include country, stock name, price, and change.

Advertisement for Peregrine Global Distribution, featuring a bird in flight and the text 'Peregrine has the world's largest team dedicated to the international distribution of Asian securities.'

Table of stock market data for Europe, including countries like Germany, France, and the UK.

Table of stock market data for Asia, including countries like Japan, Korea, and Taiwan.

Table of stock market data for Oceania and other regions, including Australia and New Zealand.

Table of stock market data for Africa and other regions, including South Africa and Kenya.

Table of stock market data for the Americas, including the US and Canada.

Table of stock market data for the Middle East and other regions.

Table of stock market data for the Pacific region.

Table of stock market data for the Indian subcontinent and other regions.

Table of stock market data for the Far East and other regions.

Table of stock market data for the Middle East and other regions.

Table of stock market data for the Pacific region.

Table of stock market data for the Indian subcontinent and other regions.

NEW YORK STOCK EXCHANGE PRICES

Main table of stock prices with columns for stock name, price, and change. Includes sub-sections for 'NEW YORK STOCK EXCHANGE PRICES', 'NASDAQ LISTED STOCKS', and 'NASDAQ LISTED STOCKS'.

Survival course. If the business decisions are yours, the computer system should be ours. http://www.hp.com/computing

NYSE PRICES

Table of NYSE stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'T', 'U', 'V', and 'W'.

NASDAQ NATIONAL MARKET

Table of NASDAQ stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

AMEX PRICES

Table of AMEX stock prices including columns for stock name, price, change, and volume.

Advertisement for Malta with text: 'Have your FT hand delivered in Malta. Gain the edge over your competitors by having the Financial Times delivered to your home or office every working day.' Includes logo for Malta.

Continuation of NASDAQ stock prices from the previous table, including sub-sections for 'A', 'B', 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

US shares advance Frankfurt, Amsterdam hit peaks towards fresh high

AMERICAS

Optimism about the outlook for interest rate policy put US shares ahead of Tuesday's record levels by mid-session, writes Lisa Branstetter in New York. At 1 pm, the Dow Jones Industrial Average was 22.36 stronger at 5,927.26...

EUROPE

Wall Street's latest breakthrough, and strength in the dollar and bonds took a number of bourses to all-time highs. FRANKFURT woke up from Tuesday's lethargy, the Dax index closing 30.95 higher at a new peak of 2,685.38...

ASIA PACIFIC

A combination of takeover stories and strong buying of the banking sector took SRI LANKA to a five-month high, the All Ordinaries index closing 29.1 higher at 2,314.6.

Latin America pushes ahead

Latin American bourses moved ahead on a broad front yesterday. At the close of the morning session, Peru was the only market to register a decline. All other bourses mirrored the upturn on Wall Street and in Europe.

SOUTH AFRICA

Shares in Johannesburg swept higher as investors scrambled to climb back into the market after the recent sell-off. In heavy turnover, the overall index rose 100.9 to 6,997.1.

Takeover speculation boosts Sydney

Construction stocks, including Shimizu, Taisei, and Fudo Construction, also bought international blue chips. Sony rose Y50 to Y7,100 and Hitachi Y10 to Y1,060.

EMERGING MARKETS: IPC WEEKLY INVESTABLE PRICE INDICES

Table with columns: Market, No. of stocks, Dollar terms (Sept 27th, % Change, 1996 over week, % Change, 1995), Local currency terms (Sept 27th, % Change, 1996 over week, % Change, 1995).

Indices are calculated at end-week, and weekly changes are percentage movements from the previous Friday. Base date: Dec 1989=100 except where noted which are (1984=100; 1985=100; 1986=100; 1987=100; 1988=100; 1989=100; 1990=100; 1991=100; 1992=100; 1993=100; 1994=100; 1995=100; 1996=100).

One of the more surprising strands among emerging market trends has been the recent resilience of the smaller Latin American stock markets. The region as a whole had a strong September, rising 2.5 per cent in dollar adjusted terms to extend its gains since January to 16.5 per cent.

FT/S&P ACTUARIES WORLD INDICES

Table with columns: NATIONAL AND REGIONAL MARKETS, US, Day's Change, Found, DM, Yen, Local, Gross, US, Found, Yen, DM, Local, Gross, % Change, % of 1995, % of 1990, % of 1985, % of 1980, % of 1975, % of 1970, % of 1965, % of 1960, % of 1955, % of 1950, % of 1945, % of 1940, % of 1935, % of 1930, % of 1925, % of 1920, % of 1915, % of 1910, % of 1905, % of 1900.

FTSE Actuaries Share Indices

Table with columns: Oct 2, Monthly change, Open, 10.30, 11.00, 12.00, 13.00, 14.00, 15.00, Close, THE EUROPEAN SERIES.

MILAN closed higher after a session in which the currency and bonds markets held centre stage.

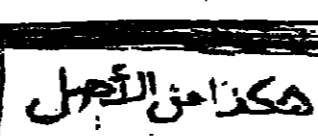
Both Italian bonds and lira stormed to new highs on hopes for an early and successful Emu inclusion, and shares were caught up in the general excitement. At the close, the Comit index was up 1.20 at 182.92 and the real-time Mibtel index was 111 ahead at 10,145.

Indonesian company. The JKSE composite index rose 9.10 or 1.6 per cent to 688.51.

COLOMBO ended higher for the eighth consecutive day on Wednesday on bargain hunting by retail investors, but some brokers said they were not optimistic. The all share index closed 4.4 higher at 589.7, driven by retail investors who had been trying to capitalise on current low prices in the market.

Sri Lanka Telecom Selection of Strategic Partner. Sri Lanka Telecom (SLT) is a domestic and international telecommunications carrier wholly-owned by the Government of Sri Lanka (GOSL). Includes contact information for Deutsche Morgan Grenfell and other partners.

Vertical advertisement on the right edge of the page, partially obscured, with text like '...of tra...', '...ins to', and '...re st... 16 per...'. Includes a logo for PERC (Public Enterprises Reform Commission of Sri Lanka).



South Africa

The country has created the institutions of freedom and equality. It must now deliver the material achievements which will help to sustain them, writes Roger Matthews

Pain of transition begins to show

Perspective is an elusive quality in South Africa. Looked at from three years ago, the country has achieved much more than most people would then have believed possible. Political apartheid is buried, democracy flourishes, and the economy is growing, albeit modestly. Yet today, some would assert, South Africa is again teetering on the edge of anarchy and recession, or at best a steady decline towards permanent third world status.

Such contradictions abound in the new South Africa. The African National Congress appears to believe it has time on its side, but the country probably does not. The economy should be poised to unleash its potential, but growth is sluggish, and foreign companies reluctant to invest. The nation is headed by a man idolised around the world, but at times seeming to lack leadership. Among some whites who struggled for liberation, there is a growing sense of disillusion. While among the essentially patient black majority, the first stirrings of frustration are beginning to be felt.

Much can be put down to the inevitable pains of transition. Few challenges in the world were likely to be tougher than moving from centuries of white domination to black majority rule. The government which emerged from the 1994 elections was always going to be driven by the need for greater social justice. Its primary role had to be the pro-

motion of the newly politically empowered and the redress of gross historical wrongs, objectives with which none, white or black, should disagree.

But it was a task which had to be accomplished in a world where ideological conflict had been transformed by the collapse of communism and the Soviet empire. There was no longer an automatic bonus to be gained by alignment with a super-power. Instead, the new battlefield on which the ANC is fighting is primarily economic, where the success of emerging economies is measured by their ability to attract foreign capital.

South Africa, two years ago, was ill-equipped to face the challenge. ANC leaders had been brought up to believe in command economies. South Africa's white entrepreneurs, protected by sanctions and tariffs, enjoyed their own cosy domestic arrangements, and had little desire for foreign competition. Both needed to adapt rapidly, or have change forced upon them.

Above all, the country's leadership had to set a national agenda in which wealth creation was perceived as no less an objective than redistribution.

President Nelson Mandela remains the personification of racial reconciliation, and will remain so even after he steps down from the leadership of the ANC in December next year, and the presidency 16 months later. He is the nation's most valuable human asset, but it is

increasingly apparent that a 78-year-old, unversed in international economics and burdened by past loyalties, cannot work through the tough agenda that South Africa faces. His admired qualities need urgently to be supplemented by those of a younger generation willing to make painful judgments on national and social priorities, ranging from crime to exchange controls.

The 20 per cent fall in the value of the rand against the dollar since mid-February has amply demonstrated that the abundance of international goodwill South Africa enjoys is not a bankable asset. Neither is the 3 per cent economic growth likely this year sufficient to fund more than a fraction of the government's social programme. Even more worrying is the danger that higher growth rates will prove more elusive because of the government's failures to identify priorities.

The danger that may be emerging is that while South Africa is rich in the institutions of freedom and equality, it may be unable to deliver the material achievements which make them sustainable. The new constitution, due to be finally adopted at the end of the year, gives the citizen ample protection against the state. But the state is being shown to be increasingly unable to protect citizens against each other.

The worsening crime rate, which puts South Africa at the head of several international league tables, may be

explained by government as a legacy of apartheid, massive unemployment, and a police force which relied on confessions for convictions. But while the solutions must inevitably be long term, the emergence of armed vigilante groups provoked into imposing their own violent justice, and the failure of government to take forceful action to restrain them, can only exacerbate the problem.

Much the same dilemma exists in the economic arena. The government announced in June its long-term macro-economic strategy. It contained many of the things the business community wanted to hear, including the goal of a 6 per cent growth rate by the end of the century, the annual creation of 400,000 jobs, and tougher fiscal discipline aimed at reducing the budget deficit. For an organisation which only five years ago espoused the cause of nationalisation, it marked a critical stage in the ANC's political evolution.

But for now, that is all it is. Economic growth this year is slowing, inflation is heading up again, there is a worsening deficit on the balance of payments partly

caused by a drop in capital inflows, and unemployment officially measured at 28 per cent of the workforce continues to rise. The weakness of the rand reflects international scepticism about the government's ability to push through the policies needed to transform the present economic situation into the one mapped out in June.

There is some justification for the scepticism. The ANC as a liberation movement embraces a range of political views, always seeks consensus, and demands of its members both loyalty and unity. While those imperatives remain there will always be a tendency to advance at the pace of the slowest. The Congress of South African Trade Unions (Cosatu) is an integral and valued component of the ANC, and while its dismissal of the government's economic blueprint as a "recipe for disaster" is unlikely to presage a collapse of the coalition, it has signalled more time-consuming and delaying political debates.

These debates will coincide with Thabo Mbeki's drive to consolidate his support within the ANC as he prepares to take over the

organisations' leadership from Mr Mandela at the end of next year. Although his position within the party is well established, the deputy president lacks a natural constituency and is unlikely to put at risk the ultimate prize of leading the country after the 1998 general election. The closer that date comes the greater may be Cosatu's influence. And although the unions may modify their views, they will continue to act as a significant brake on the more market-oriented aspirations of individual ministers.

Whether a different, more forceful Mr Mbeki will emerge, before or after he becomes president, generates much speculation. Certainly, by the next election the government's economic strategy will either be bearing fruit, or recriminations over missed opportunities will intensify from the private sector, as frustrations grow among the wider public.

The biggest concern for the government should be that while South Africa is waiting for the answer, international perceptions about the new nation are being formed. Where nega-

tive, they may be hard to reverse. The sharp fall this year in foreign capital inflows is not just a reminder of the harsh judgment of the global economy, but that international investors are not yet persuaded South Africa is a place where they can make money.

The word "profit", like "privatisation", has been slow to enter the lexicon of ministers. Neither appears to sit comfortably alongside the goal of social justice. While countries in south-east Asia compete over which has the lowest wage rates, South Africa officially rejects such attractions to foreign capital because of the implied exploitation of labour from which the black community suffered for so long.

However, ministers are also rapidly becoming aware of just how little power they have to improve life for the majority, beyond removing the final formal traces of apartheid. The government spends 20 per cent of its revenue on just servicing debt, another 70 per cent on salaries and other recurrent expenditure, and is committed to maintaining a tight rein on the biggest spending

ministries. Despite recent acquisitions by black groups, the private sector remains overwhelmingly in white hands. Therein lies the most bitter-tasting of all pills the ANC is being asked to swallow. It is being forced towards adopting policies which will be perceived by the majority as primarily benefitting the already privileged minority.

The good fortune for the ANC is that it will be re-elected anyway in 1998. And that should add a strong political argument to the already persuasive economic case for taking tougher action sooner rather than later.



South Africa's momentous year

- April, Trevor Manuel (far right) becomes the first ANC minister of finance
- May, Mr Mandela, FW de Klerk and Cyril Ramaphosa (top) outside parliament after the adoption of the new constitution
- June, Mangosuthu Buthezi (right) campaigns during KwaZulu-Natal elections
- July, ...



IN THIS SURVEY

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Production editor: Roy Terry

Interview with Thabo Mbeki, the deputy-president by Michael Holman, Roger Matthews, Hugo Dixon and Mark Ashurst

'We're still on course for 6 per cent growth'

Mr Mbeki, who is expected to succeed Nelson Mandela as leader of the ANC in December next year and as president in 1999, talks to the Financial Times

The economic outlook. Our target of 6 per cent growth by the end of the decade is achievable for a number of reasons. Take for instance the discussions we have had with the private sector on infrastructure investment. The response was unanimously positive to partnerships between the private and public sectors.

The leading financial institutions have also committed themselves and have already set aside funds to put into infrastructure, and that will be an important area of growth for the economy.

The housing programme is also picking up as provincial governments develop their capacity and the private sector is becoming more involved. I can confidently forecast a take-off in the housing sector.

On manufacturing, the

minister of finance is working on the final shape of the incentives for investment. The large corporations are generally positive about their investment plans, and foreigners are also showing increased interest, particularly in telecommunications.

Taken overall, there is no reason why we should not reach 6 per cent growth by the end of the century. The unions' rejection of economic policy as a "recipe for disaster".

We told the unions to come back to us with proposals that they would not consider to be disastrous. But they have not done so. One element of policy we are working on is to reduce the budget deficit next year to 4 per cent of gross domestic product.

We are quite willing to look at anything which

might constitute an improvement. But the unions understand very clearly that they do not have the power of veto over the government, and we are not about to abdicate our responsibilities. Privatisation.

From the beginning we have spoken about the restructuring of state assets, and have insisted that this is not a code word for privatisation. As a result of restructuring there will be some wholesale privatisation of certain entities, there will be strategic equity partners for others, and in some cases it will mean changes in management and articles of association. So, restructuring means a variety of things. At the same time it would be foolish and quite impractical to say we should move at the same time and same pace across the board. So it was

decided to lead with the telecommunications sector.

It was also necessary to bring in some professional advice. We had set up various task teams, made up of government officials, but this was just one of perhaps 10 tasks they had to perform in a normal day, and it slowed the process down.

We decided to appoint the Hongkong and Shanghai Banking Corporation as overall adviser to look at the entirety of state assets. They are going to find they have a very big and difficult task. When they can put a valuation on the different entities it will be possible to say which we should deal with first. Also, in the case of transport, decisions will have to be taken within the overall framework of policy. We shall move within the context of that overall policy, the parliamentary process, and our engagement with the trade unions.

We are looking for a situation with the unions where



Thabo Mbeki: "There is not one population, but many sectors with very different expectations"

there is no conflict over restructuring state assets. It is not sensible to generate a strike if you can avoid it. Black empowerment.

It will take many different forms. There are the private sector initiatives which have been seen recently. There is the government's contribution, for example, through the tendering system which requires bidders to get into partnership with black people. This will apply to the strategic equity partner for Telkom. The government has also set up the institutions for helping to finance

small- and medium-sized enterprises. It is important both to generate new wealth as well as to transfer existing assets.

That is a particular challenge those groups face. They cannot just stop and wait for the dividends. They have to decide what to do with those assets in order to generate more wealth. The role of the big conglomerates.

From the government side we are engaging them in detailed discussions, not on the macroeconomic framework, but from their own

perspective about what they intend to do. We want to be practical. The minister of trade and industry is looking at which industrial sectors should play a leading role, and what incentives are required.

It would make no sense if at the end of that process we found that the principal investors were pointing in a totally different direction.

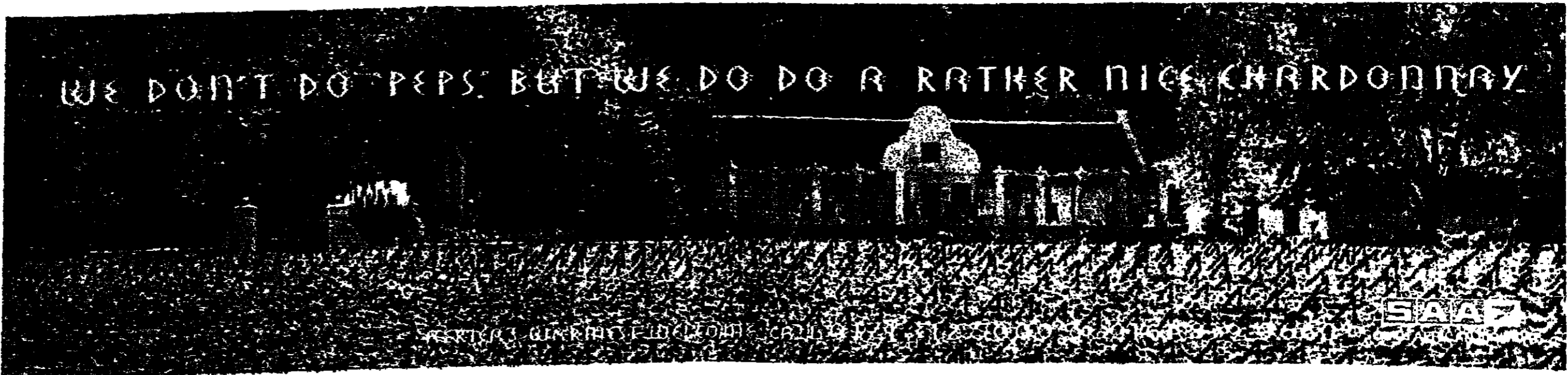
It has been a very healthy discussion because we want the private sector engaged in the process of wealth and job creation that will give us 6 per cent annual growth.

The fight against crime. If one does not understand what happened in the past, it is impossible to explain crime today. Before 1994 the capacity for crime intelligence was poor, because so much effort went into the defence of apartheid.

And a lot of corruption had seeped into the police. When we came into power we had few instruments to fight crime. Take car hijacking. What happened was that a hijacked car would be taken to a police pound. An alert would be put out, but meanwhile the car chassis and engine numbers were being changed, together with the number plates. The expectations of the people.

There is not one population, but many different sectors with very different expectations. It varies greatly from place to place. If you look at the really poor that is where you find the greatest degree of patience.

In communities where children can now go to school, get a meal, and where a wife can receive hospital treatment, this all makes a substantial difference. And even if a community has not yet received water or electricity they can see that it is happening at a village not far away.



2 SOUTH AFRICA

Regions by Mark Suzman

Tensions in the provinces

Several of the premiers want extra powers to consolidate their political bases

Few issues have proved more contentious in the fledgling South African democracy than defining the rights and responsibilities of the country's nine new provinces.

Although the ruling African National Congress (ANC) essentially ignored opposition demands for greater provincial powers when negotiating the country's new constitution, the issue was dramatically reopened last month when the Constitutional Court demanded the relevant portions be re-drafted.

At the root of the debate is the tension between the ANC's long-standing predilection for greater central powers to right the wrongs of apartheid and the desire of the National Party and Inkatha Freedom Party (IFP) - which control the provincial governments in the Western Cape and KwaZulu Natal respectively - to maximise their regional autonomy.

But the issue has become more complicated as several of the premiers in the ANC-controlled provinces have also been pushing for more powers as they seek to consolidate their own political bases within the party. And underlying this debate is the wide disparity in wealth and income between the provinces, which is exacerbated by growing regional identities in party and government structures.

"There is a lot of tension between provinces and the central government and between each other on both political and fiscal issues", admits Colin Donlon, deputy head of research at the Fiscal and Finance Commission, the independent government body charged with recommending an appropriate fiscal division between provinces and central government.

Nevertheless, the court's conclusion that the new constitution is not in accord with the principle, entrenched in the 1993 interim constitution, that the powers of provincial government could not be diminished in the next text came as a surprise to most observers. In particular, the court criticised the new overrides

which the central government would have over the authority of provincial decisions.

At the same time, however, the court dismissed a proposed provincial constitution put forward by the IFP for allocating too many powers to the regional government. The final result - expected to be redrafted by the beginning of next year - will probably allow for the status quo to be left relatively unchanged.

In next year's budget, most provincial allocations will, for the first time, be in the form of block grants. This will allow individual provinces substantial discretion in experimenting with different ways of enhancing education, health and other public services. However, from 1998-9 that will probably change again as the government makes certain portions of the grant conditional on provinces meeting minimum norms and standards in areas such as health and education.

For many analysts the debate on fiscal powers begs the most important question about the new provinces: the extent to which the regional administrations are capable of spending the money.

Provinces have had to set up new bureaucracies from the remnants of old white provincial administrations with those from black homelands, and the process has not been easy. Some 93 per cent of senior provincial posts remain unfilled, while a cost-cutting drive to encourage many older civil servants to take early retirement has met with only limited success.

This problem is most pronounced in the poorest provinces, such as Northern Province and the Eastern Cape, which have struggled to recruit capable officials. It has also been seriously exacerbated in some ANC-led regions, most notably the Free State, by burgeoning political tension between provincial party structures and the national executive.

The net result of all these conflicting pressures is that the new provinces have only recently been able to turn their attention to the critical task of policy implementation. "The whole process [of restructuring] has taken much longer than we expected and it will take another year or two before it is complete," admits Vincent Mntambo, director-general of Gauteng.

The economy by Roger Matthews

Forward with precision

Determination and speed of implementation will provide a best test of policy



Chris Stals: blunt warning on macroeconomic environment

Few national economic growth strategies have been more precisely mapped than that of South Africa. After a flurry of sharply contradictory advice from trade unions and big business, the government in June unveiled a detailed macroeconomic plan charting precisely its targets and expectations.

The aims for the year 2000 are 6 per cent sustainable annual growth, a reduction in the budget deficit to 3 per cent of gross domestic product, the creation of 400,000 new jobs, a 13 per cent rise in exports, a quadrupling of foreign fixed investment, and an inflation rate of 7.6 per cent.

Each step along the way is also marked, with goals set for every intermediate year. As a hedge to political fortune it can have few rivals, but as a statement of official intent it marks another important milestone in the evolution of the ANC's economic thinking. Trevor Manuel, minister of finance, stressed that he would not be moved on the main pillars of the policy, but would debate the details.

The test for the government is, of course, the speed and determination of implementation. Chris Stals, governor of the Reserve Bank, believes the targets are attainable, but in a blunt annual address to shareholders at the end of August warned that the current macroeconomic environment in South Africa was both complex and uncertain.

An important part of that uncertainty has been created by a decline this year in foreign investor confidence, which has not been reversed by the unveiling of the macroeconomic plan. The rand has shed over 20 per cent of its value against the dollar since mid-February and remains weak.

The relative strength of the currency last year was

regarded as unacceptable because of its adverse affect on domestic spending", he said. "This limited view, however, disregards the even more disastrous consequences for the economy of not correcting a non-sustainable deficit in the overall balance of payments".

The government hopes this will in part be achieved by a slowing in import growth as a result of the devaluation of the rand, and an improvement in export prices. But in the absence of a more positive trend in capital inflows, there appears little prospect of rebuilding gold and foreign currency reserves, which have fallen this year by over R5bn to little more than R10bn, equivalent to less than four weeks' import cover.

This, in turn, has important implications for the government's plan to continue its gradual removal of remaining foreign exchange controls. Mr Manuel and Mr Stals continue to turn a deaf ear to the clamour from some business sectors for a "big bang", and admit that further steps have been delayed by the loss of reserves. Mr Stals added that the timing would depend on the "successful implementation of the overall programme of economic restructuring".

He is also showing renewed concern about inflationary pressures. Although inflation has remained below 10 per cent for the last three years, it is beginning to nudge up. In August it was running at an annual rate of 7.5 per cent, compared with

5.5 per cent in April, and has probably still to feel the full impact of the rand's fall.

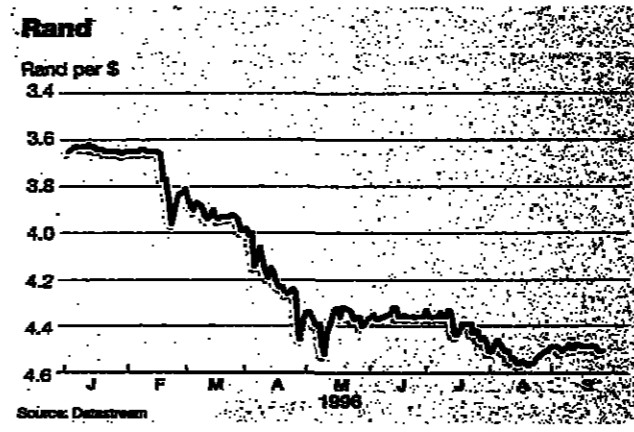
All of which points to continued tight monetary policy and a further slowing in the overall rate of economic growth. The government has progressively reduced its growth forecasts for this year to 3 per cent, and is forecasting a little over 2 per cent for 1997. Only after that does the government expect its policies to produce steadily rising growth rates.

The two important tests for those policies will be the budget in March - when Mr Manuel has pledged to introduce measures that will reduce the deficit from the current financial year target of 5.1 per cent of GDP, to 4 per cent - and the pace of the limited privatisation programme. Both are key indicators of the government's commitment, not least because they face considerable resistance from the trade union movement. If, as feared, revenue collection falls below forecast, Mr Manuel may not be able to avoid increasing value added tax, which the unions' successfully opposed earlier this year.

Pay settlements so far this year have averaged just under 10 per cent, according to labour consultants Andrew Levy and Associates, which reflects a modest reduction in union demands. However, a further rise in the inflation rate, spurred by higher VAT rates, could rapidly lead to increased militancy.

Such political factors will weigh heavily on the immediate task for the government and Reserve Bank which is to restore stability to the rand. As Mr Stals warned recently, a further decline in the rand's value can but increase the upward pressure on both interest rates and inflation.

The grand strategy is in place, but what seems most likely to determine the immediate direction of the rand is government action. Telling the markets to wait for the budget in March, as ministers have recently been doing, is unlikely to produce the desired result.



THE ONLY SA COMPANY ABLE TO OFFER A FULL SERVICE RANGE TO FOREIGN INVESTORS

Paul Heinemann, group managing director of the Forbes Group, talks to John Spira, Business Editor of a leading Johannesburg newspaper.

Spira: What is the current focus of your business activities?

Heinemann: The group operates in four areas:

- Price Forbes, which, together with Corporate Risk Management Consultants, strives to offer the most comprehensive and beneficial solutions to risk-related problems

- Alexander Forbes Consultants & Actuaries, which aims to provide the highest quality of employee benefit consultancy, actuarial services, administration and financial planning advice and health consultancy. This subsidiary has become a major force in the markets it serves in South Africa.
- Forbes Reinsurance Broking Services, which provides reinsurance administration, protection and coverage services. In the past year, pre-tax profits rose by 74 percent.

- Integrated Risk Consultants, which specialises in risk financing consultancy and related products, captive consultancy and insurance company management.

We also have a highly strategic minority shareholding in Medscheme, South Africa's market leader in medical scheme administration and health care management services. We see the health care industry as a growth sector.

Additionally, we have a 7.5 percent interest in the London-listed brokerage, Nelson Hurst plc and 49.99 percent of Nelson Hurst UK Limited, which is under our management.

Forbes Group owns 45 percent of Guardlink Insurance Company, a specialist insurer in the creation of which we played a strategic role. And we have a 49.99 percent stake in Meele Hosken Group, South Africa's largest black-controlled insurance company. Our partner is Thebe Investment Corporation. Meele Hosken's performance has improved substantially.

Forbes Group employs 3,000 people, excluding associates, in its 35 operations situated in most of South Africa's principal towns and cities and is active abroad through its association with foreign companies.

Our clients, which include more than 80 of the country's largest 100 stock exchange-listed companies, extend from industry and commerce through to the agricultural, mining and parastatal sectors and to the individual.

We're South Africa's largest insurance brokers, risk management consultants and employee benefit consultants.

Group retained brokerage and fees amount to more than R600 million, which ranks us among the largest firms of our type in the world, excluding the mega Alphabet-Brokers.

Forbes is a South African company with South African shareholders. Servgro International has a 70 percent equity stake in the company, with the remainder held by management of the group and Amalgamated Banks of South Africa, Africa's largest banking group.

Spira: Will you be listing Forbes on the Johannesburg Stock Exchange in the near future?

Heinemann: A decision to list has been taken in principle, but no decision has yet been taken on the timing or the details. Forbes is a significant business on its own and clearly a listing would allow us to establish a more distinct profile for our business as well as to raise additional capital for the expansion of our business.

In our 1996 financial year we lifted attributable profit by 31 percent to R55 million and I anticipate further growth from the group's clearly focused divisions. The repositioning that we undertook last year is already showing good returns and we expect to capitalise on that, and on the growth in our specialised niche financial markets as time goes on.

Various alternatives to achieve the listing are being considered and when the final decisions have been accepted by the boards of both Servgro and Forbes, we shall release the final details.

Spira: How would you characterise the outlook for your group over the next 12 months against the background of the changes that are taking place in South Africa?

Heinemann: We see new threats from the changed environment but we also see new opportunities. On balance, we believe our group will keep on growing.

Price Forbes, although faced with fierce competition, will hold its own; Alexander Forbes will enhance its performance considerably; Medscheme will do better while focusing on consolidating its position (the health care field is viewed as a growing industry); Nelson Hurst will continue to do

well (particularly in the context of South Africa's weakening currency); and for the rest I anticipate ongoing earnings growth. Both Guardlink and Meele Hosken will improve their respective performances.

Our focus as a group is to hold our position, continue to grow in the South African market on a cautious basis and to sensibly continue growing our business in Africa.

We have selected Nelson Hurst as our partner in developing our business internationally, other than in Africa.

Our strategy is to grow our group in emerging markets. We've recently been offered deals in mature markets. We've turned them away because we want to keep our focus on the developing economies of the world, since we envisage above average growth in those countries.

If one talks of emerging markets, South Africa, of course, is one, along with several other countries on the African continent. For the rest, Nelson Hurst is in Thailand, Indonesia, Malaysia, Philippines, Singapore, Hong Kong (which will be part of China next year), and other countries in Southeast Asia, Brazil and Mexico - among others. So Nelson Hurst is interestingly positioned.

While we have a relationship with Nelson Hurst in its UK business, a lot of our clients in going international have made the UK their base. The apparent paradox is therefore no more than apparent.

Spira: How large is Forbes in a world context?

Heinemann: This time last year we were assessed as being number 17 in the world. Our objective is not to be the biggest, but it is nevertheless gratifying that this year we went up to number 15.

More interesting is that our revenue growth, at 29 percent, was the highest of any broker in the top 20. Significantly, even though the bulk of our business is generated in a small country like South Africa, we still performed extremely well in global terms.

That the business in our market grew more rapidly than that in the more mature markets tends to justify our philosophy of investing in developing markets.

Worthy of note is that of the top 20 global insurance brokerages, Forbes is the only company controlled outside of the United States and Europe.

Spira: Has Forbes continued to expand in Africa?

Heinemann: During the past year we bought 75 percent of an insurance broking business in Zambia from Lourto, which retains the other 25 percent. It's performing well.

We also invested in a company called Ngamiland Trust of Botswana, which we think has good potential.

Our risk management company, CRM International, opened a business in Kenya, which is performing satisfactorily.

And our Namibian and Swaziland operations are doing very nicely. We're currently looking at setting up in Angola.

Forbes is a member of the African Insurance Organisation.

So we've positioned ourselves well in Africa in line with our policy of following our clients.

The engine room of the group nevertheless remains South Africa, which accounts for a great percentage of our total revenues, with the two driving forces being Alexander Forbes and Price Forbes.

Spira: How is South Africa's weakening currency impacting on Forbes?

Heinemann: If we measure our business in world terms, we've obviously become smaller during the months that our currency has depreciated - which then presents the challenge as to whether we can grow faster in a weak currency environment than similar companies in a more stable currency environment.

The answer, probably, is yes, although we obviously don't know. After all, we went up a couple of notches in the world league in the year to March.

Consider that in the mature economies, interest income is in the 3 to 4 percent region. In South Africa, where we have among the highest real interest rates in the world, we earn 16 percent. Not that we're that dependent on interest earnings, which are 3 percent of our income. But it's just one example of how a weak currency environment can offer advantages.

One of our counters to the softening rand is our quest to expand our international activities, thereby boosting our earnings in rand terms.

At the end of the day, however, we come to work in the morning and measure our performance in rands.

Spira: Do you agree with the view that the decline in the value of the rand reflects reduced confidence in South Africa's outlook among the international investment community?

Heinemann: I believe that there is an unfairly-biased view towards South Africa emanating from certain quarters and it tends to dominate the attitude towards our currency.

But if you go, for example, to Southeast Asia, there's a completely different view. That's been borne out by such countries which have invested here. They have a different attitude towards South Africa's future. They don't contemplate failure.

There is a view in some quarters that South Africa is part of Africa and therefore cannot succeed. When it comes to the rand, this is part of a self-fulfilling prophecy. That is not, however, the view of people from many other countries.

I believe we have to be go on being positive about everything we do in this country. Placed in perspective, we should be asking ourselves where we were a few years ago and where we might have been had positive political and economic transformation not taken place.

Spira: Have exchange control impacted negatively on Forbes?

Heinemann: We've lived with exchange control for a long time and have thrived during that period.

Some of our foreign companies would benefit if exchange controls were removed, because we could channel more funds their way.

For example, we have a stake in newly-formed Euroguard Insurance Company in Gibraltar, which will focus on providing self-insurance skills and facilities to companies, mainly in Europe. There aren't too many operations of that kind. It is being financed by a Bermudan insurer. We'd have preferred to have financed it ourselves, but exchange controls have precluded as from doing so. Nevertheless, we are very happy with our partner.

At the same time, I must acknowledge that those types of opportunities would not have been possible during South Africa's isolation era. And we would like to continue taking advantage of those opportunities.

Spira: What is Forbes' 1997 earnings budget against the background of South Africa's likely economic growth during this period?

Heinemann: South Africa's real GDP will probably expand by around 3 percent in the next year. We've been well ahead of GDP growth for some years and 1996-97, for which we've budgeted real earnings per share growth of at least 8 percent, will be no exception.

Spira: What progress has Forbes achieved on the affirmative action front?

Heinemann: We've progressed further. We're still weak at top level, but we're not far off from bringing people of colour through to the higher echelons of our management structure.

I believe we have a good story to tell of what we have done. But it isn't an event; it's a process.

One of the problems associated with affirmative action is that we from time to time lose some of our promising people to other industries. We don't take it lightly when someone wants to leave, because we've invested a great deal of money in training.

We have long been, and still are, in a position where opportunities in the group exceed our resource base. So there's much scope for personal advancement within Forbes, particularly on the affirmative action front.

And we've entered into alliances with black insurance brokers - relationships we'll continue to develop.

Spira: Why should a foreign company entering South Africa seek the services of Forbes?

Heinemann: We're the one organisation in South Africa that could provide the full range of services they would require. And we know much more about this country than anyone doing the business from overseas.

What has a coal mine in Australia and an iron-ore harbour in China to do with Iscor?

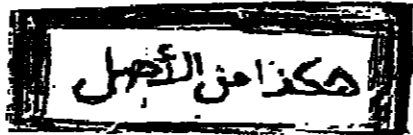
They are part of Iscor's diversification programme. It requires immense courage to break out of the mould of conformity - to stop doing the things the way they have always been done. It demands that we stand back and examine ourselves and our methods. To seek other ways of moving forward. Iscor's management made such a decision. They are exploring for high-grade coal in Australia and



have invested in an iron-ore harbour in China, both of which will earn much-needed foreign exchange. They purchased Titanium deposits in South Africa and for the first time will be manufacturing stainless steel, in addition to many steel-related products for the building industry. As new opportunities present themselves, Iscor will take them. For Iscor is diversifying, worldwide.

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THE AGENCY 2365



Black business by Mark Ashurst

Pace of change frustrates

The media sector may provide a model for transfer of white-owned assets

It has been a record year for black economic empowerment - almost 1 per cent of the market value of the Johannesburg Stock Exchange (JSE) is now controlled by black investors.

The biggest transfer of white-owned assets to black buyers was concluded in August when Anglo American Corporation unbundled a 35 per cent stake in Johnnie Industrial Corporation, an industrial holdings group valued at R2bn on the JSE.

Analysts expect a follow-up deal - the transfer of Anglo's controlling stake in JCI Ltd, the mining house - to be finalised next year.

Black business has consolidated its foothold in the financial sector: Legas Securities, the first black-controlled stockbroker opened for business last month; there are two black-owned merchant banks, Citizen Bank and D.L.J. Pleiades; the two leading insurers in the black market, Metropolitan Life and African Life, now form the hubs of two mushrooming conglomerates, Dr Nthato Motlana's New Ncube Investments and Don Ncube's Real Africa; and trade unions are for the first time managing investments from their own pension funds.

The media sector may provide a model. The Johnnie deal has given its new owners control of Times Media, a newspaper publishing subsidiary. The state-owned South African Broadcasting Corporation has unbundled its six provincial radio stations to consortiums of aspirant black broadcasters.

The story continues next year when new commercial radio stations take to the air and the Independent Broadcasting Authority, the first independent broadcast regulator, issues a new television licence. Lyndall Shope Mafote, a member of the authority, says the IBA is a catalyst: "People are thinking that unless we get in now it may be too late", she says. The sector also appeals

to black entrepreneurs: "The need to hear more black voices and to get a black perspective is a strategic thing. People get to see that something is happening."

In less regulated industries, government patronage is now the most conspicuous mechanism for black empowerment. The revised state tendering system includes affirmative action criteria - multi-racial letterheads of the "Fisher Hoffman Sibole" variety are becoming more common among legal and accounting firms seeking work from government departments and parastatals.

The trend extends to industry, where international franchises are increasingly available to black businessmen. The best example is Pepsi, whose international company has launched a joint venture with black American celebrities and the pension funds of local trade unions.

There is scant evidence, however, that a black-controlled company is any different from a white one at operating level. Nick Segal, executive director of JCI Ltd, believes the mining sector will provide a concrete test of the benefits of black ownership: "There is huge scope for smarter ways of working".

He expects Cyril Ramaphosa, secretary-general of the African National Congress, to be JCI's next chairman. "Cyril can talk hard sense - we need less management by white men".

Mr Ramaphosa's will quit politics later this year to concentrate on his job as deputy chairman of New Africa Investments. A former leader of the National Union of Mineworkers, he argues that new owners can enhance productivity in a sector where better labour relations are widely seen as the key to profitability at marginal gold mines.

There may be other commercial advantages. Faced with the mounting costs of ultra-deep level mining in South Africa, local groups are turning their attention to joint ventures in mainland Africa. "JCI welcome black ownership not so much to be politically correct, but for their own survival," says Mr Ramaphosa.

He predicts that within 15 years about 40 per cent of the JSE will be in black hands. True to Mr Ramaphosa's style, this is a hugely ambitious target - manufacturing output is at a virtual standstill, and black business is hamstrung by a shortage of skilled managers. "With legalised apartheid we took 40 years out of the system," notes Marinus Daling, chairman of Sanlam, the insurance giant founded as a mechanism for Afrikaner economic empowerment in 1918. "We are in a pressure cooker situation."

But Transnet's ability to forge closer ties with partners in the private sector is jeopardised by its pension fund deficit. Its pension obligations are only 89 per cent funded, and the deficit has been reduced by an R8.8bn bond issue which absorbed R1.4bn in coupon payments last year.

These charges, and the outstanding deficit of R2.4bn, will have to be allocated between Transnet's different businesses before unbundling can begin. The principle of closer public and private sector co-operation has permeated every aspect of transport policy. Mr Maharaj has instructed provincial governments to manage parastatal bus companies established by former homelands on a commercial basis. They should be run "as if they were privatised", says Mr Maharaj. Public money for building new roads will target "social roads" in areas where private construction companies will not make a return. Private capital will be used to double the existing 7,000km network of truck roads.

Trade by Mark Suzman

Export future is in Africa

The value of sales to the rest of the continent is expected to exceed R14bn this year

It has become routine for economists and politicians in the new South Africa to declare that the country's long-term future will rest on the economic success or failure of the rest of the continent. In the realm of trade, however, the future has already arrived.

In the five years after the unbanning of the African National Congress in 1990 exports to sub-Saharan Africa have risen by between 30-50 per cent a year, albeit from a low base. And although that is now starting to slow slightly - preliminary figures for the first half of 1996 show growth of 25 per cent on the same period last year - the value of those sales has already risen to a substantial R6.7bn, with the full year total expected to exceed R14bn.

That may still be dwarfed by exports to other areas, particularly Europe which accounted for a third of R100bn in total exports last

year, but it is critical for South Africa for two reasons.

First, it is the primary destination for the country's small but growing manufacturing export base. The government is explicitly targeting manufacturing for export growth to compensate for the long-term decline in some primary products, particularly gold exports.

Second, and just as important, Africa is the only global region with which South Africa now runs a substantial trade surplus, worth R5bn in the first half of 1996 alone. "The simple fact is that without Africa, South Africa would soon slip into deficit," says Liz Whitehouse, general manager for research at the South African Foreign Trade Organisation.

Meanwhile, as the traditionally overprotected domestic market starts to open up to competition from imports, there are signs that increased efficiencies are allowing manufacturing exports to other parts of the globe to start growing as well.

Even in previously uncompetitive areas such as the motor industry, some South African companies have now

begun small-scale exports of spare parts, and the trend is spreading.

According to Richard Bruyns, managing director of Kohler, a plastics and packaging company which has built up successful markets in Latin America and Europe, many South African businesses are now ready to take on international competition.

"In the past few years we've been forced to become much more focused on the outside world and there is no question that has improved our competitiveness," he says. "The fact is the local market just isn't big enough any more and we have to increase exports to grow."

But despite such individual successes, many analysts worry that the overall picture remains one of underperformance, particularly given the 25 per cent depreciation suffered by the rand since February. "There's no question we expected a sharper rise in exports than has taken place so far," admits Ms Whitehouse, pointing to only 17.5 per cent nominal growth for the year to July 1995.

ronment and domestic industrial policy.

On the first front, negotiations with the European Union for a proposed free trade treaty have proven much more contentious and prolonged than initially expected. Under pressure from Italy, Spain and France, the EU's initial offer excluded many goods, in particular value-added agricultural products, South Africa had hoped would be part of the agreement.

In consequence, says Rob Davies, an ANC MP involved in trade issues, South Africa will produce an alternative mandate this month forcing a return to the negotiating table. "We have now learnt that statements of solidarity and support and a professed desire to help South Africa's reconstruction and development are not directly related to generosity in trade talks."

And although South Africa was able to resolve a long-running dispute with Zimbabwe by signing a new trade agreement this year, the foot-dragging on the EU front is causing delays for other regional trade initiatives. Most important, it has forced the postponement of the planned restructuring of the Southern African Custom



Europe accounted for a third of R100bn in total exports last year

Union South Africa shares with Lesotho, Swaziland, Botswana and Namibia. As several other members rely heavily on their share of customs income for their national budgets, any significant cuts to import duties for European goods would have a knock-on effect on their economies, and would have to be factored into a new agreement.

And it is only once a revised SACU is in place that the 11 members of the Southern African Development Conference (the five customs union members plus Zimbabwe, Mozambique, Zambia, Angola, Malawi and Tanzania) will be able to press ahead in earnest with their stated aim, affirmed in August, of making the entire region a free trade area over the next eight years.

As government officials freely admit that will also require some readjustment in the trade balance. "There

is a massive trade imbalance in our favour (which) is not conducive to the region's development," says Alec Erwin, minister for trade and industry. "So we are now looking at other mechanisms, and particularly sectors, especially agriculture, and trying to find joint ventures to help change that."

Meanwhile, next year will also see the final phasing out of the General Export Incentive Scheme (GEIS) that fell foul of the 1994 Gatt agreement. However, the cushion provided by the fall in the rand means that the programme's demise will have a less severe impact on exports than initially feared.

And although no alternative industrial policy has yet been adopted, for many analysts the hard decision to start reducing tariffs and expose South African industry to more competition has already set the trade picture on the right track.

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■ Conglomerates: by Hugo Dixon

Tangled webs of shareholdings are being unwound

Barriers to trade and capital are falling and new ideas are starting to take root

South Africa's conglomerates are coming out of the larger. Gradually the tangled webs of cross-shareholdings that have given a handful of families and insurance companies control over large chunks of the economy are being unwound. Words such as unbundling, focus and shareholder value are entering the vocabulary. The traditional conglomerate structure owed much to the isolation of apartheid. Exchange controls trapped capital at home, meaning the big groups had little choice but to diversify into a broader range of businesses. With trade barriers protecting companies from foreign competition, inefficiencies were not exposed. Meanwhile, there was scant pressure to boost shareholder value by unravelling cross-shareholdings and pyramid structures: international investors shunned the country, while the big mutual life insurers like Old Mutual and Sanlam

were part of the same charmed circle as the conglomerates such as Anglo American, Anglo Vaal and Rembrandt. Exchange controls still largely remain. But tariffs have been cut and international capital markets are open to South African groups. Moreover, it is not simply the barriers to trade and capital that are falling; South Africa is opening up to new ideas about how business should be run. Martinus Dalling, chairman of Sanlam, talks about "the excitement of adding value and focus". The pace of change is not uniform. Sanlam and Anglo Vaal are making bigger strides than Anglo American and Old Mutual. But, throughout industry, there is an unmistakable trend towards more focused businesses. Sanlam, which became during the apartheid era the main vehicle for extending Afrikaner control of the economy, has seen the biggest changes. It has broken up two conglomerates in its sphere of influence: Tradegro, a retail group, and Gencor, a mining to paper group. It is now doing the same to Malibac, a consumer industries conglomerate. "The emphasis was on size

and control: if that's what you're doing, you're not going to be very successful," says Mr Dalling. One reason for unbundling its conglomerates is that investors prefer "pure plays" and so are often prepared to value broken up groups more highly than conglomerates. But Mr Dalling stresses that removing this discount is a "one-off affair". The bigger recurring benefit comes from "focusing management on an area of expertise". Even after unbundling, Sanlam is left with large minority stakes in many of the companies it previously controlled. The next stage of its strategy is therefore to cut its stakes to levels more normal for an insurance company. One way of doing this is to sell shares in companies it controls to foreign groups in the same business - something it did recently when it brought Petronas of Malaysia into Egen, South Africa's largest oil retailer. Sanlam is effectively putting most of its investments up for sale. But Mr Dalling also says the group is unlikely to back hostile bids: "Our philosophy is that we work with managements of companies without being taken hostage." Once this

process is over, Sanlam aims to become a financial services group with operations in life insurance, banking, general insurance and venture capital. The next move may then be to "demutualise", seeking a stock market listing would give Sanlam access to more capital and so accelerate its international ambitions. The changes under way at Anglo Vaal illustrate another theme: the erosion of the traditional South African mining house. Often mining houses own minority stakes in a series of quoted mines and extract more value through fat management contracts. Such structures can be unpopular with the other investors in mines, who worry that their interests come second. Anglo Vaal is attempting to address this concern by consolidating all the mines it controls into two mining groups, each of which will manage its own assets. It is further attempting to woo investors by separating its gold interests from its other mining operations, with the aim of giving shareholders a pure play in gold. The reasoning behind these changes is not hard to find. Anglo Vaal needs to



Johann Rupert little sign of change in Rembrandt

decide in 1998 whether to invest R2.5bn on sinking a new gold shaft in the Orange Free State; it faces a further R2bn investment decision the following year. The group thinks that by meeting investors' needs it can double its market value. Even if that target proves over-ambitious, a higher share price would lower the cost of raising new capital. It would also put Anglo Vaal in a better position for future strategic moves. One option in several years, according to an executive, would be to

merge its gold mines with another international gold group. With a higher share price, it would achieve a better deal. Anglo American, by contrast, is moving slowly. "We like diversity," says Michael Spicer, a director. "A demerger is not something we've been pressed to do; we've tested it with major shareholders." According to Jacko Maree, managing director of Standard Corporate and Merchant Bank "Anglo American is a special case. They are so powerful, they do what they want". Although Anglo's size and financial strength protects it from commercial pressure, it is not standing still. One reason is that some of its investments, as Mr Spicer admits, "have not been great returns". This year, Anglo started to review the performance of its operations. One executive sees this as a prelude to restructuring the group into core and non-core businesses. A further pressure that even Anglo feels is the margin squeeze in its mining operations. The result is that the group is no longer generating cash at a prodigious rate. Executives are therefore eyeing piles of cash

lying in Anglo's subsidiaries. But if the parent is to gain control of that cash, some of the pyramid structures may need to be collapsed. The debate within Anglo is unresolved. One executive says there is a generational divide, with younger executives pushing for change and older colleagues preferring the present structure. He says the group is "on the cusp" of big changes. Whether or not that proves to be the case, all the conglomerates agree that the abolition of exchange controls would accelerate the unbundling of the country's industry. Bankers believe that foreigners are at present reluctant to buy South African assets because they fear the rand will fall if exchange controls go, so reducing the value of their investments. Equally, the conglomerates do not want to sell assets because they could not invest the proceeds in building up a core business internationally. Mr Spicer calls exchange control the "golden key" that could unlock the present structure of South African industry. Johann Rupert, chairman of Rembrandt, predicts that their abolition will put many

assets into play. "Things that might seem holy cows today, won't be". Still, a complete transformation of the structure of industry will not occur even if exchange controls go. The pyramid system, in particular, looks like remaining as the main mechanism for retaining family control. While Sanlam has removed the pyramids in its group, it is a mutual rather than family-controlled. Elsewhere, there is little sign of change. Rembrandt flatly refuses to contemplate their removal. "Everybody who bought into our company knew they were buying into a family-controlled company," says Mr Rupert. Similarly, even after Anglo Vaal's restructuring, a pyramid structure will remain - the main shareholder in its gold company will be its other mineral company, which in turn will be majority-owned by the parent. And even if Anglo American collapses some pyramids, the complex cross-shareholding structure with the De Beers diamond group that gives the Oppenheimer family ultimate control, are unlikely to go. One banker calls that arrangement "sacrosanct".

BALANCE OF PAYMENT EQUILIBRIUM MUST BE RESTORED WITH MINIMUM DISRUPTION

Dr Chris Stals, Governor of the South African Reserve Bank, talks to John Spira, Business Editor of a leading Johannesburg newspaper.

Spira: What has been the most important change in the South African macroeconomic scene over the past 12 months?

Stals: The substantial decline, since February 1996, in the total net capital inflow from abroad. This sudden deceleration changed the overall balance of payments position, the foreign exchange market, the domestic financial situation, the local business mood and foreign investors' assessment of South Africa as an emerging market economy where sound high-yielding investments could be made.

The smaller net capital inflow from February 1996 onwards led to an over reaction in the foreign exchange market and triggered a downward adjustment in the exchange rate of the rand which continued with intermittent pauses during the subsequent six months. In the six months to the middle of August of this year, the average weighted value of the rand against a basket of currencies of South Africa's major trading partners depreciated by 20 percent.

At this juncture, it continues to need cool headedness from both policymakers and currency traders to restore stability to the foreign exchange market.

Spira: Has the picture also altered significantly on the domestic economic activity front?

Stals: Although the rate of overall real economic expansion has been retained at last year's level of about 3.5 percent, the primary sectors of production, and particularly agriculture and non-gold mining, have since replaced manufacturing and the services sectors as the prime movers of the economy.

The growth in overall expenditure, however, continues to outpace growth in total production with the result that large imports of goods and services are required to maintain equilibrium between overall demand and supply. The current account of the balance of payments therefore remains in deficit and, in the light of the decline in the net capital inflow, it has now become a matter of concern from a macroeconomic point of view.

Spira: Government and household debt has been rising rapidly. What is the Reserve Bank's strategy in this regard?

Stals: The maintenance of the expansion in domestic demand continues to depend heavily on the extension of credit to the private sector. This credit, which not only contributes to an unacceptably high rate of increase in the money supply, but also leads the country towards an untenable debt position where an unduly high share of the current income of both government and households will be claimed for debt servicing.

This dangerous prospect holds a serious warning for the banking sector to apply greater caution in their lending operations. It also dictates the need to continue with a restrictive overall monetary policy.

Despite growing pressure from different sources for the relaxation of monetary policy, the Reserve Bank, in the interests of medium-term financial stability and longer term sustainable economic growth and development, must persist on its current course of responsible monetary restraint.

Spira: Has the Reserve Bank made significant efforts to slow the rand's depreciation?

Stals: It was fortunate that the depreciation of the rand occurred at a time when the Reserve Bank had no foreign liabilities outstanding, while it has also succeeded in reducing its net overdraft foreign exchange position from more than \$20 billion at one stage to only \$8.1 billion at the end of February 1996.

Thus, the net losses reflected in the forward foreign exchange position of the

Bank were restricted to a smaller amount than would have been the case with a similar depreciation at any other stage during the past three years. This net overdraft position has, however, increased again to over \$15 billion as the Bank intervened in the forward foreign exchange market at the sliding exchange rate, mainly to enable importers to cover future commitments and to make use of available foreign financing facilities.

It is true that an increase in the net overdraft forward foreign exchange position of the Reserve Bank inevitably increases the risk of possible losses from future exchange rate changes. Such losses will eventually become recoverable from taxpayers. This risk must, however, be measured against the costs to the taxpayers in general of a further fall in the exchange rate with accompanying higher interest and inflation rates.

There is no costless way to adjust the economy downwards in a situation where the inflow of capital from abroad has fallen so abruptly as was the case in South Africa earlier this year.

Spira: How do you explain the paradox of the strong growth in monetary expansion on the one hand and historically low inflation rates on the other?

Stals: Inflation has declined dramatically in the past few years and has been below 10 percent for three years in succession. There are, of course, extended time lags between changes in monetary policy and in the money supply, and also between changes in the money supply and in prices. An economy can often be inflation prone in terms of expectations long before the disease actually manifests itself. Monetary authorities must therefore always be on their guard, even in times when low inflation is experienced.

There are also certain other factors at work in the economy which recently assisted monetary policy in bringing down inflation. These include the determined policy of government to reduce tariffs and to abolish the surcharge on imported goods; the introduction of more foreign competition into South Africa's markets; the lower level of inflation in the case of South Africa's major international suppliers of goods and services; and the decline in the real domestic labour costs per unit of production experienced last year.

The excessive rate of increase in bank credit extended to the private sector nevertheless remains a matter of concern, not only because of its effect on the money supply, but also because of the rising levels of indebtedness of private households.

Spira: How do you justify a situation in which South Africa's real interest rates are among the highest in the world?

Stals: For good reason, interest rates in South Africa remain high. The level of interest rates cannot be dictated by the needs of borrowers alone, just as they cannot be fixed solely by the demands of lenders.

In the final analysis, interest rates must be determined by the underlying demand for and supply of loanable funds. The huge demand for funds emanating from general government, the business sector and private households, must be matched with the limited amount of domestic saving plus an amount of medium and longer term foreign investment funds that can reasonably be expected to flow into the country.

This simplified macroeconomic truism confirms that South Africa, with its low savings and high consumption propensities, cannot have low interest rates for any length of time without running the risk of persistent high inflation. The upward pressure on interest rates is further exacerbated by the present overall balance of payments deficit.

Spira: What is the current state of play on the fiscal front?

Stals: The deficit in the main Budget, excluding extraordinary transfers, was reduced as a percentage of gross domestic product from 6.6 percent in the fiscal year 1992/93 to 5.6 percent in the fiscal year 1994/95. A substantial carry-over of R6.4 billion of unspent funds at the end of the fiscal year 1995/96 contributed to the reduction in the actual deficit to 5.1 percent in that year.

For the fiscal year 1996/97, the deficit was estimated at 5.1 percent of gross domestic product. The actual outcome will, of course, be influenced by the government's ability to catch up on expenditure backlogs in respect of previously planned programmes which could lead to the spending of part of the funds carried forward to the current fiscal year.

For monetary policy purposes, it is of the utmost importance that the fiscal deficit and disavow by government be reduced further. This will alleviate the burden on monetary policy to maintain financial stability, and thereby also allow for lower interest rates.

Spira: How would you characterise the principal challenge for current macroeconomic policy?

Stals: The balance of payments deficit at its present level is obviously not sustainable, particularly after the substantial decline in the net capital inflow since February 1996.

The macroeconomic challenge is therefore to judge whether the current slowdown in economic growth will be sufficient to correct the external imbalance, and whether the current monetary policy stance is restrictive enough to underpin this unavoidable adjustment process. In this assessment, account must also be taken of the expected effects of the depreciation of the rand on imports and exports, which will only work through with some considerable time lag.

In the present situation, the Reserve Bank should provide some assistance to the market by selling foreign currency from the official reserves, supplemented by available foreign credit facilities, if necessary. The Bank should also support the money market to assist banking institutions in bridging the period of transition to more stable conditions.

In the this way, the unavoidable but painful adjustments will become more tolerable. At the same time, macroeconomic corrective market forces must not be impeded, but deliberately encouraged, where necessary, to restore balance of payments equilibrium with a minimum of disruption. Exporters have an important part to play in this adjustment process by taking advantage of the current favourable exchange rate.

The need for a downward adjustment in the rate of expansion in total economic activity will, of course, be reduced considerably if more long-term foreign investment funds can be attracted. The effective implementation of the government's Macroeconomic Strategy for Growth, Employment and Redistribution can make an important contribution towards creating a more friendly investment environment, both for foreign and South African investors.

It also remains of crucial importance that the present wave of crime and violence be seen to be curtailed, and that greater confidence be gained in our determination as well as ability to achieve our longer term economic goals in the interest of all the people of this country.

MAJOR SOUTH AFRICAN INFRASTRUCTURAL PROJECTS WILL BOLSTER BARLOWS EARNINGS

Warren Clewlow, Chairman of Barlow Limited, speaks to John Spira, Business Editor of a leading Johannesburg newspaper.

Spira: Three years ago, Barlows went through a major restructuring/unbundling exercise. Have subsequent events justified that move?

Clewlow: Four years of flat earnings prompted the restructuring. A bold decision had to be taken to reposition Barlows for the 1990s and the route we chose was one which linked the Barlows companies to infrastructural expenditure.

This enabled Barlows to grow and develop vertically instead of laterally. It facilitated a policy of expanding existing business (after an initial period of streamlining) and of acquiring related businesses thereafter.

In the intervening three years, earnings have moved up to a new plateau. In the year to September 1996, earnings will be 25 percent up on last year, which was 54 percent up on the previous year and a third up on the year before.

I characterise that performance as a rapid and significant rise in earnings.

Spira: You refer to Barlows' earnings have reached a plateau. Does this mean that the steep advance in earnings of the past three years has come to an end?

Clewlow: Earnings are now at a level where they won't continue to surge as they have in recent years, principally because a lot of the recent growth has come from improved efficiencies.

Another factor is that South Africa's economic growth prospects, while not depressing by any means, are not likely to expand at a rate much above the current 3.5 percent a year for the next two to three years.

Spira: Yet South Africa's current economic growth rate is higher than it has been for the past three years.

Clewlow: You have to break that figure up into its component parts. The fortunes of Barlows hinge on the gross domestic fixed investment segment of the economy - a segment whose growth has outstripped the rate of overall GDP growth by a considerable margin.

Spira: Do you regard the outlook for gross domestic fixed investment in a negative light?

Clewlow: Not at all. On the contrary, I'm optimistic. What I'm saying is that the likely expansion in gross domestic fixed investment will not be as vigorous as we would like it to be, nor as vigorous as it should be for a country at our stage of development. It should nevertheless continue to grow at a relatively sound pace but no as fast as in our recovery phases.

One of the big pluses for Barlows - and for South Africa - is that our mining industry, still an important player in the South African economy, has been doing well. And I envisage that it will continue to prosper.

There are several big infrastructure-type projects in process and more likely to come on stream in the next two to three years. It's actually a very impressive list totalling billions of rands. Those projects will keep Barlows, and the South African economy, ticking along at a reasonably satisfactory rate.

Then, too, there's a fair bit of infrastructural spending coming out of the Reconstruction and Development Programme - spending which is rising to progressively higher levels.

Spira: How are these background factors likely to impact on Barlows?

Clewlow: We do not see volumes growing very fast in the short term but they should be sustained at quite a high level. Bear in mind that I'm talking of growth from a high base following three years of rapid growth.

Spira: How has Barlows been affected by the decline in the value of the rand? What is the outlook on this score?

Clewlow: The impact has been mixed. One benefit, obviously, has been in our exports. Another is that it has lifted the earnings contributions from our foreign

subsidiaries considerably. In the year to September 30, I expect earnings from these sources to be 25 percent of the group total.

The other side of the coin is that imports of capital equipment and consumer durables have become more expensive, as has our exposure to foreign debt. Likewise, it means that we have to use more rands to buy new investments elsewhere?

Generally, however, I'm surprised at how well we've taken it. It's obviously going to put pressure on key indicators like fuel prices and keep interest rates, which are not coming down as we had hoped, high.

And inflation will be hard pressed to hold lower levels - a factor that will delay the scrapping of the remaining exchange controls and with these still in place we will continue to see a period of uncertainty.

Given this background, our economy won't grow much more than it is at present.

Spira: What is Barlows' main thrust at present?

Clewlow: In South Africa we have strong market shares across all our product lines. This is strength, but to help with future growth we are also looking at further expanding our businesses beyond our local borders.

Barlows is currently operating in three major geographic areas - South Africa, Africa and Europe. Our operations in those areas have much in common, making for high levels of efficiency.

Our experience with Caterpillar illustrates the point very well and we have learnt much from our experience in Iberia, particularly dealing with a different type of customer in the international construction and engineering industries.

The benefits are such that we are endeavouring to repeat the process across all our business focus areas and in additional geographic regions. Thus, for example, we recently bought the third largest paint manufacturer in Australia after having spent a lot of money in the past three years on upgrading our paint facilities in South Africa.

The main advantage is that this, along with our other foreign initiatives, makes us a noteworthy player in world terms.

If we're going to be successful, we're going to have to be at least as good as our competitors. That puts a new slant on thinking on the efficiency of our people and systems.

What I'm seeing in the Barlow group is a new breed of people coming through. In essence they're no different; they're just like the South Africans of yesterday. But they are much more international. That's not only new to Barlows but new to South Africa.

We're battling internationally, in the same way as our sportsman have been doing.

Spira: What capital investment plans does Barlows have?

Clewlow: We're constantly having to look ahead well into the future.

Thus, for example, we're planning a modern cement plant which will come on stream in two years' time. We could delay it but then we'd lose market share. So we've taken a decision to put that money down now because in three, four or five years' time it will have proved to be the correct strategy.

The same reasoning applies to expansion upon we've embarked at our steel pipe manufacturer, RIH Group. It is in the nature of our business that we have to take long-term decisions.

Spira: Was the RIH decision prompted by its success in countries to the north of South Africa?

Clewlow: Largely so. We're prepared to spend money provided that at the end of the day we produce a product which we

can go out and sell in Africa in particular.

We aren't so shortsighted as to believe we can sell large volumes of steel pipes in the developed markets. But in the markets nearest to us we have a strong competitive advantage.

Significantly, we're starting to witness a revival in Africa's fortunes, not only via orders for our steel pipes but also via our Caterpillar orders. The amount of equipment scheduled to go into Africa next year is very high. And this year it's a lot higher than last year.

We're noting particular progress in Angola, where the economy is being rebuilt; in Zambia, where the copper mines are being privatised; and in Namibia, where they're working hard at getting things going. In Zambia, where we have had a presence for the past two years, we're upgrading our office and bringing people to South Africa for training.

In short, we're spreading our wings in areas with products we know well, though not necessarily the country or the people. I think we will be staggered at the progress we are going to see in the development of our people - and hence in our ability to compete against anyone.

Spira: Barlows is well known for its human resource development. Will this continue?

Clewlow: Of course. Training is clearly of major importance and we are really concentrating on developing our people - for their benefit as well, of course, as for ours. The better qualified our people are, the more competitive and successful we shall be.

Spira: What about management development?

Clewlow: Our management profile is young in years but remarkably well-schooled in experience, especially after having come through the past few difficult years of recession.

At the highest level our management team is not yet representative of the country's population. But we are working towards that goal as quickly as we can. Barlows will give new managers an opportunity to grow and to move around the group itself. Exposure to our foreign know-how partners will be especially encouraged.

Spira: What is your vision for Barlows?

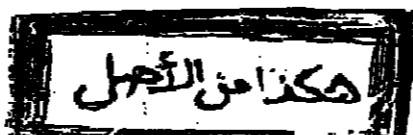
Clewlow: Having runched Barlows up to current profitability levels, I want to at least hold it there. I don't want it to slip back and I don't want it to be vulnerable to cyclical if I can help it. I want to prepare it to go yet further ahead, aided by the fact that it has broken out of the South African mould and into the international arena.

Working very much in our favour is that Barlows has already shown itself to be a company with a clear mission. It possesses both the vision and the resolve to develop strategies which suit the times and provide a basis for future growth.

I hope we can maintain clarity of thinking as we continue to progress and deliver realistic performance in line with potential in the years ahead. I am confident that our culture is right for the future.

I would hope, too, that our businesses and our trade and influence in neighbouring African countries will be well and truly established to mutual benefit and that the beach-heads we have for expansion, especially in Europe, will show good development along the lines we anticipate.

Most importantly, I would like to see us as a company which, because of its committed management, together with its loyal and skilled employees, its high levels of integrity and responsible corporate behaviour, good reputation and success built on performance, continues to attract the best in all positions - people who want to belong to Barlows and who want to make a contribution to the progress and well being of the company and of the our country.



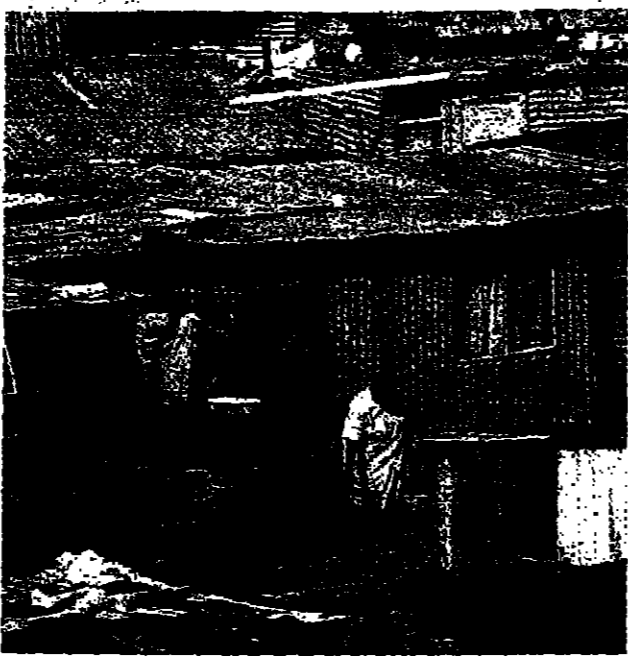
Profile - Telkom: by Hugo Dixon

Industrial growth: by Mark Ashurst

Huge financial hurdle looms New corridors of power

Nearly half the group's operating profits are swallowed up by interest payments

The central challenge of South African telecoms policy is simple, but daunting: how to install millions of new lines in a few years. While there are 60 lines for every 100 whites in the country, there is less than one line for every 100 blacks. Telkom, the state-owned monopoly, has set a target of connecting 4m telephone lines in five years. Of these, 2m would go to "underserviced" areas - mainly black townships and the countryside - and 1m for areas with existing infrastructure. A further 1m would replace obsolete lines.



Soweto: a target area for improving communications for blacks

One only has to compare this target of 800,000 lines a year with the 150,000 lines Telkom installed last year to appreciate the scale of the challenge. Part of the difficulty will be logistical - few observers believe Telkom has the project management skills to ramp its engineering effort up so rapidly. Even if it did, the group faces a huge financial hurdle, though Telkom is profitable, nearly half its operating profits are swallowed up by interest payments on its R5bn debt. Not only would a massive expansion add to debt and interest payments; many of the new lines in underserviced areas are unlikely to be profitable.

It is not surprising then that the government is pressing ahead with Telkom's partial privatisation as the centrepiece of its policy. The idea is to bring in one or more foreign telecommunications operators, who would inject perhaps R5bn-5bn for a 30 per cent stake. As well as helping finance Telkom's expansion, the foreign partner would be expected to bring project management and other skills.

Initially, privatisation ran into opposition from the country's trade unions, who were fearful it would lead to job losses. But, following a softening in the union's position last month, the government is now free to move on with detailed negotiations with the intention of finalising a deal by next April. Of the eight names on the government's shortlist, observers think Germany's Deut-

sche Telekom, SBC of the US and KPN of the Netherlands are the frontrunners.

The privatisation process is moving ahead in parallel with the construction of a new regulatory regime for the telecoms market. While the broad outlines have already been set, the details will be negotiated with Telkom's potential partners. The price a foreign operator is prepared to pay will be significantly affected by four factors.

First, what social obligations it has to assume. The more it has to ramp up investment in unprofitable townships, the less attractive the proposition.

Second, how much freedom it has to manage Telkom - in particular to cut costs. Large-scale redundancies may not be necessary, because of the massive expansion plans. But Telkom's productivity, low by international standards, will need to be boosted.

Third, how Telkom's prices will be regulated: not simply how much it will be allowed to increase the average level of prices; but also how much it will be able to shift the balance between local and long-distance calls.

This so-called "rebalancing" could be particularly controversial. If tariffs are to reflect costs, long-distance calls would be much cheaper but local calls more expensive. Such a switch would tend to lower the telecoms costs of businesses but raise the costs of residential cus-

tomers. A policy that ended up making it even harder for poor blacks to afford telephone lines might be tricky to sell politically.

On the other hand, preventing Telkom from charging economic rates will make it extremely vulnerable to competitors undercutting it on the most lucrative long-distance and international traffic.

The final main factor to be determined in negotiations is how long Telkom's monopoly should last. This is closely linked to the issue of rebalancing tariffs. In theory, if rivals were kept out of the market for ever, Telkom would not need to rebalance tariffs.

But nobody believes this would be possible in practice: not only is the World Trade Organisation pressing for telecoms markets throughout the world to be opened to competition, new technology - such as Internet telephones, resale of private networks and so-called "call-back" techniques - are making it possible for rivals to sneak in even when not officially allowed. One industry executive thinks Telkom is already losing hundreds of millions of rand a year because of these techniques.

The government is therefore talking about a phased introduction of competition - with the market finally opened up in perhaps three to five years. This period of exclusivity would not be a "blank cheque", says Jay Naidoo, the telecoms minister. "For me, the issue is how do you achieve your goals; we are looking for a package that puts South Africa first," says Mr Naidoo.

Complex projects are at heart of a scheme to draw together industry and resources

On the tenth floor of a drab tower block in Pretoria, government officials are plotting an industrial renaissance for southern Africa.

At the heart of their plans lies the concept of "development corridors" - channels of roads, railways, pipelines and power cables which will draw industry closer to the country's natural resources and strengthen its links to the outside world.

The project is potentially the biggest industrial infrastructure project since the development of the Witwatersrand, according to Paul Jourdan, special adviser to Alec Erwin, minister of trade and industry. The concept is a logical extension of an economic policy that identifies export-driven manufacturing as the key to sustainable growth, he says.

The walls of Mr Jourdan's Pretoria office are draped with maps of mineral deposits, industrial developments, and road and rail networks. Broad strokes of felt-tip pen denote new links joining East London and Port Elizabeth to the Western Cape; "agro-tourism corridors" spanning the rural farm lands of KwaZulu Natal; another linking the national parks to Kosi Bay and the little known "surf and turf" belt on the south coast of Mozambique.

Corridors are also gaining credence among neighbouring governments. Botswana has mooted plans to build a

trans-Kalahari railway, adding a Namibian leg to its national rail system. Zimbabwe is looking at the dilapidated Limpopo railway, which may be revived as a freight line to carry ferro-alloys to South African industries and ports.

The complexity of these projects is daunting: sceptics suggest the cash, regional co-operation and regulatory reform needed for such projects is greater than the bureaucratic skills or economic incentives currently available. In the Eastern Cape, for example, a new road from East London to Port Elizabeth has long been on the cards. But further developments along this axis depend - inter alia - on Gencor, the mining house, approving proposals to build a R1.8bn zinc refinery; the successful creation of an export processing zone close to East London; and Portnet, the state-owned port company, building a R1bn industrial harbour at Coega, outside Port Elizabeth.

If approved, new infrastructure could provide the catalyst for an estimated R12bn in industrial investment. Kevin Wakeford, executive director at the Chamber of Industry in Port Elizabeth, is bullish: the Eastern Cape coastline will in time become a natural hub for industrial exports, he argues.

The port at Durban, which handled 26,000 tons of freight last year, is congested - and tariff liberalisation favours an increase in trade. Battleship South Africa, as critics dubbed the protectionist economy of the sanctions era, is sinking. The Maputo Corridor is a

product of all these trends - and illustrates another critical change in South Africa, a consensus that industrial development can promote regional stability in the sub-Saharan.

The corridor links the industrial heartland of the Gauteng province, which includes greater Johannesburg, to the Mozambican harbour capital of Maputo. Officials say it is inspired by a \$3bn development in South America, where Brazil, Uruguay and Argentina expect to share the trade benefits of a new 2,100-km road linking Sao Paulo and Buenos Aires.

A briefing document circulated to potential investors describes Maputo as "the key to development of future economic opportunities for Mozambique and South Africa". Before Mozambique gained independence in 1975, about 40 per cent of exports of processed goods from the Gauteng region passed through Maputo. Today, that figure stands at about 5 per cent, or less than 5m tons of cargo. The port has only rudimentary lighting, and is out of bounds to vessels larger than 30,000 tons.

Reviving the harbour, supplying electricity and installing new equipment at its loading bays will cost up to R500m. A further R15m will be spent dredging the harbour to accommodate bigger cargoes, and upgrading the roads will absorb another R800m. New rail and telecommunications links are needed on both sides of the border; the customs facilities may eventually be privatised. Ketso Gordhan, director-general of South Africa's

department of transport, says the South African and Mozambican governments will contribute about 10 per cent of costs with the balance coming from the private sector. "Corridors are a particularly effective way to make sure government is well coordinated nationally and provincially, and interacting continually with the private sector," says Mr Erwin.

Two consortia, each including a European contractor, have reached the government's final short-list for a build-operate-transfer contract to extend the existing N4 highway from Johannesburg. The R400m road will begin at Witbank in the province of Mpumalanga, and reach 80km beyond the border point at Komatipoort, shaving 150km from the existing route. The contractor is due to be announced in November.

The true test of the concept will be the extent of new industrial investment along the corridor. To date, evidence of the dynamo effect its architects envisaged exists only on paper. Enron, the US gas company, has launched a feasibility study into building a natural gas pipeline from its Pande gasfield to a new plant in Mpumalanga. A decision on the \$900m project is pending. Phalaborwa, the mining company, has signalled an interest in building a slurry pipeline linking the corridor to its existing mines. If approved, the slurry would include magnetite and phosphate destined for Maputo, where Foskor, the chemicals company, has launched a pre-feasibility study for a new phosphate processing plant.

Labour and the government: by Mark Ashurst

Strained relations

There has been a brief resurgence of mass action reminiscent of the 1980s

Trade unions, like everyone else, are still finding their feet in South Africa's new political landscape. Despite their alliance with the ruling African National Congress, moves to liberalise the economy have strained relations between organised labour and the government.

The result has been a brief resurgence of mass action reminiscent of the 1980s, manifested in two one-day general strikes and a rancorous dispute over the government's privatisation programme. Tariff liberalisation has taken a heavy toll on traditionally protected industries, and the government has largely shunned labour's prescriptions for macroeconomic policy.

But contrary to speculation, the alliance between the ANC and the Congress of South African Trade Unions is not on the verge of collapse. After 20 years as a critical force in the liberation movement, trade unions are adjusting to their new and narrower mandate of industrial relations.

In that arena, their efforts to secure a statutory role in the work place have been spectacularly successful. More than half the workforce in the manufacturing sector are unionised, and union agreements extend to 80 per cent of employees in the formal economy. That role is not about to diminish, says Alec Erwin, minister of trade and industry and a former union leader. "We will not create non-union environments. The costs of non-unionism to the broader social fabric are much too high."

Business is learning to live with the consequences. Centralised bargaining in heavy industry and manufacturing will be mandatory when the new Labour Relations Act becomes law on November

11. The average overall wage increase as this year's round of bargaining draws to a close is almost 10 per cent, significantly ahead of inflation. And a new Employment Standards Act, due next year, will shorten the working week to 40 hours and impose higher overtime payments. Industrial action has increased substantially, albeit from a record low in the wake of the 1994 all-race election. The number of man days lost in the nine months to September was 1.35m, an increase of 68 per cent on the same period last year and about half the average annual figure for 1990-1994.

Analysts predict the rising trend will continue. "We don't have any sense that union militancy has declined," says Andrew Levy, labour relations consultant to a wide range of blue-chip companies. On the shop floor, union grievances have changed little over the past three years. "I'm not sure that you can really take the apartheid factor out," he says.

The new laws are based on the premise that more worker participation can redress the inequities of the past. The Labour Relations Act will impose collective bargaining in manufacturing and heavy industry; encourage the creation of voluntary bargaining forums in other sectors; create work place forums in every factory; and install a new Commission for Conciliation and Arbitration. The institutional structures have delayed implementation of the Act by a year. "We have been living between two systems. The new industrial relations framework is not in place yet and the old one is falling apart," says Mr Levy.

This state of flux also reflects "an expanding agenda" for industrial relations, says Ebrahim Patel, secretary-general of the South African Clothing and Textile Workers' Union. Training, productivity, globalisation, earnings, work place forums and job secu-

riety are all negotiable. Fears among industrialists that the new structure will produce inflexible blanket settlements are widespread. But they were partly mollified in the second quarter when Mercedes settled an angry wage dispute at plant level. The deal, which threatened to scupper a centralised motor industry agreement, will supplement, not replace, the terms of the three-year, industry-wide settlement negotiated last year.

The precedent has prompted a new willingness to consider two-tier bargaining. Encouraged by the threat of shaft closures at marginal gold mines, more flexible agreements have emerged in the mining sector, where centralised bargaining has long been the norm. In engineering, a wage settlement covering 280,000 workers was reached without stoppages.

Centralised bargaining forums have produced an average wage increase of 9.1 per cent, below the average overall settlement of 9.9 per cent which includes the decentralised retail and construction sectors. Inflation, buoyed by the weaker rand, is forecast at about 8.5 per cent this year.

To achieve its macroeconomic policy goals of 6 per cent annual growth and 400,000 new jobs by 2000, the government has urged a policy of wage restraint from labour. Its hopes of achieving union co-operation will depend largely on industrial policy.

"We have pre-empted calls for tariff liberalisation. Instead of painting ourselves into a highly protectionist corner, we decided that modernisation and efficiency should be driven by industrial relations. The government must provide an active industrial policy followed by pragmatic tariff liberalisation," says Mr Patel. "If industrial policy and trade policy are out of step, up to 100,000 jobs will go in clothing alone. They have to get their ducks in a row."

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6 SOUTH AFRICA

Interview with Senator David Malatsi by Roger Matthews

The target for power is 2004

The NP's leading black talks of the agenda for the opposition party, and himself

Mr David Malatsi is the assistant secretary-general of the opposition National Party. He is the most senior black member of the party, and is expected to become the first black to head the Nationalists at provincial level when elections are held later this month in Mpumalanga. He talked about his political origins, policies and aspirations.

Why did you join the National Party?
I have been involved in mainstream politics for over 10 years, and was mayor of a black township from 1985. By doing that I became identified as a target by some black people because I was collaborating with the system as it then existed. I have

been working with government and National Party people for over 10 years, so it was a logical political route for me to follow after 1994. Can the Nationalists ever again form a government?

I believe it is possible, and I feel very strongly about it. We have already set ourselves the target of 2004. And the more I am involved in strategic planning, the more I believe that it is possible, even though we cannot govern again as the old National Party. It has to be a totally different party.

What must the party do to make itself electable?
It was difficult being a junior member of the government of national unity because the majority of people in the country, and in the party, could not see a marked difference between the National Party and the ANC. Since we have withdrawn from government we have the chance to assert ourselves as a genuine party

of opposition, and as an alternative to the ANC. What we must do is to use the experience of some of our members to show how relevant we are to the blacks of this country.

Why should blacks vote for the National Party?
If you look at South Africa, it is obvious that it has a far superior economy to any in southern Africa. And it was developed during the years of apartheid. Despite apartheid, no one can say the National Party government did not invest in the country and create a good infrastructure. As a result, many people in this country today have employment opportunities. This contrasts with those people from other neighbouring countries who are flooding here looking for jobs.

The man in the street, like myself, and the 500,000 other blacks who voted for a non-racial National Party for the first time in the 1994 elec-

tions, all knew exactly how we feel about this party. We also understand there is no way we can change the party from a distance. We have to be within it. Since 1990, when the leader announced a programme of reforms, the party has been changing very fast. For example, I am now the assistant secretary-general and hope soon to be a provincial leader.

How do you see the future shape of South African politics?
FW de Klerk has already contacted some political leaders. But so far the mainstream leaders are not keen to meet our challenge to reorganise the political scenario for this country. Maybe it is because they fear we are threatening to steal their thunder. But they must understand the importance of a realignment because the national and local elections we have had since 1994 were nothing more than an ethnic

census, where whites voted predominantly for white parties, and blacks for black parties. In this new democracy, we are saying race should no longer be the dominant issue. But if no other parties come to join us, we are not going to say we cannot do anything. We are taking the initiative, and will re-establish ourselves as a new force.

The National Party must attract substantial support from black people before it can win power. If we cannot do that, we obviously will not be able to form a government in 2004. We have strategies in place, and ways by which we hope to achieve this. More than half the people who voted for us in 1994 were not white. That is a good basis on which to build. What is the difference between the National Party and the ANC?

The ANC is nothing but a populist organisation, motivated by socialist tendencies. The National Party, however, believes in religious freedoms, in the free market system, and in individual rights. The ANC is dominated by the trade unions, strongly influenced by the Communist Party, and by other elements from the former homelands governments. We, on the contrary, are not dominated by the unions.

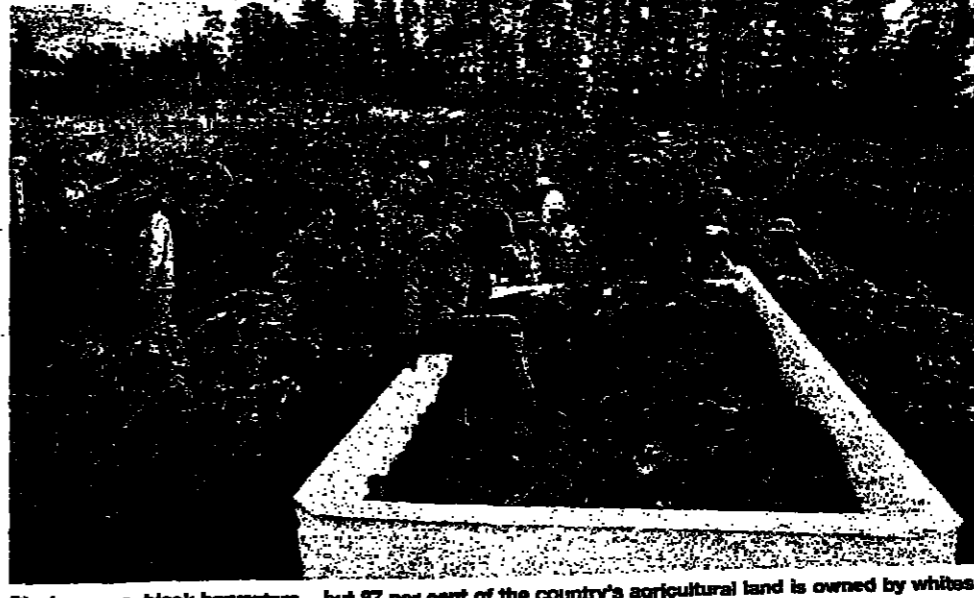
How do you see the performance of the ANC in government?
They have had two years and so far very few of the promises they made have been realised. It has not been a very good two years. They must now really start to deliver, but I think they may not be able to. We do not rejoice at this because it gives a bad impression of our country overseas.

What are the worst mistakes of the ANC?
The worst errors have been made in the implementation of affirmative action as a form of reverse discrimination. Brown people are finding that while before they were perhaps not white enough, now they are not black enough. Some are being frustrated by this.

How should the problem of crime be tackled?
I would immediately deploy 100,000 troops, because it is people's lives that are being lost. The army is sitting in barracks doing absolutely nothing. I would declare war on crime, and by deploying 100,000 troops would free more police for crime detection. We are not using our full potential to halt the rise in crime, which is now running out of hand.

And economic policy?
I would accelerate the transformation of the state sector so that funds could be released to assist the most disadvantaged communities. There are a lot of state assets which are not needed. The hesitation in privatisation is unnecessary. I would not have allowed it to go on this long. I would also move faster to scrap exchange controls because we are now part of the global economy. We have to play by world rules, and we are fortunate in that we have a well developed financial infrastructure. We owe it not just to our people, but to all the people of Africa to make a success of our economy.

Your ambitions?
My greatest ambition is to lead the National Party. And at 35 I have time and age on my side. I will patiently nurse that ambition until the right moment.



Black grapes, black harvesters - but 87 per cent of the country's agricultural land is owned by whites

Land reform: by Roger Matthews

Expensive legacy

Growing numbers of families are deciding to pool their resources

Land has been at the heart of most revolutions, and South Africa is no exception. When the African National Congress (ANC) came to power in 1994 it was bequeathed many intolerable statistics, but none more emotive than the one which showed 87 per cent of agricultural land owned by whites.

The ANC set itself a target within five years, it decreed, 30 per cent of the land, or some 30m hectares, would change hands. But with expropriation only to be used as a last resort, the ANC is fast discovering how difficult, and expensive, it will be to bury this legacy of apartheid.

The largest transfer is to be achieved by the state giving people money to buy on the open market. Next, the estimated 3.5m who between 1960 and 1982 were thrown off their land, will get it back, or be recompensed. Finally, many of the estimated 1.2m farm workers will get security of tenure, or the right to buy the land on which they live. But with eight pieces of legislation passed or pending, and popular expectations still rising, the impossibility of achieving the goals within the timetable or the current budget is becoming clear.

However, the political imperative remains. "Blacks in rural areas still suffer insecurity of tenure, landlessness, hunger, poverty and under-development as a result of apartheid policies which forced them off their land and denied them the right to become owners", says Derek Hanekom, minister of land affairs and agriculture. "Unless these issues are resolved, rural areas will continue to be plagued by instability and unrest. We have no choice in the matter. We owe it to our people to address these inherited realities".

Restitution of stolen land is not the toughest part of the rural problem, according to Geoff Budlender, the pragmatic director-general of the land affairs department, although it poses huge difficulties in cities. "In the rural areas the land is still quite identifiable, few changes have been made to it, and the claimants are a coherent group, not widely scattered as tends to be the case with urban claims", he said. "There is resistance from some white farmers, but I am confident that can be overcome". Even so, the numbers are impressive, with over 2,200 claims lodged so far involving well over 2m people.

There are more than double that number of urban claims, affecting such high profile sites as District Six in

central Cape Town - where 100 hectares of housing was bulldozed in the 1970s - shopping centres, hotels, and the land on which the Reserve Bank stands in Pretoria.

Far more challenging for the government will be to achieve land redistribution, and to meet its goal of providing security of tenure for agricultural workers living on white-owned farms. Mr Budlender believes if the only goal was to achieve a 30 per cent redistribution of land it could be done within the target date. "It would be cheap and it would be easy. The key would be to find the suckers who would go and live on it", he says. "It is actually a red herring. We could give away vast tracts of land tomorrow, and we would have achieved nothing. The crucial issue is viability".

It is a theme echoed by Rudi Wilsnack of Standard Bank's agricultural division. He estimates that if the government redistributed land with low earning potential it would cost the exchequer about R2bn at present market values. "But the cost of redistributing land with high agricultural potential would represent huge government expenditure of over R25bn, and that would have to be justified by the earnings it generated", he says.

The government is making available R15,000 per head of family for land redistribution, and some support costs. This might buy 150 hectares of the cheapest grazing land capable of sustaining 15 sheep and producing perhaps R1,500 a year. "It's clearly not a practical proposition, even before thinking about transport, equipment and accommodation", says Mr Wilsnack.

One answer, hit on by a growing number of families, is to pool resources. At Rocky Drift in the KwaZulu-Natal midlands, 230 families representing more than 2,000 people, have combined to purchase 5,000 ha of cattle-grazing land, and still leave themselves with R1.7m for investment in equipment and stock. But the purchase has angered the white commercial farmers nearby.

Graham McIntosh, for 10 years an opposition member of parliament and now president of the Natal Agricultural Union, describes the future for Rocky Drift as "a rural timeshare development for the lower end of the market". He claims the families moving there already have land. "They are a landed community upgrading themselves at state expense", he says.

Mr McIntosh believes many of the people moving there will work in the cities and just use the farm for recreation. Because a trust is being set up to own the farm, he argues that the land will in effect be taken off the market and the 230 families will be left with "an unsellable and wasting

asset". And, he adds, "because no one will be accountable, neighbours are likely to endure cut fences, illegal grazing and theft of livestock".

Commercial farmers' fears over government plans to give agricultural workers security of tenure, and in some cases the right to buy the land on which the grazers permit them to graze stock, are no less serious. "If the issue of tenure reform is not handled correctly it could condemn this country to a permanent second class status", says Mr McIntosh. "Mr Hanekom is creating the impression that these people have the eternal right to live where they are now".

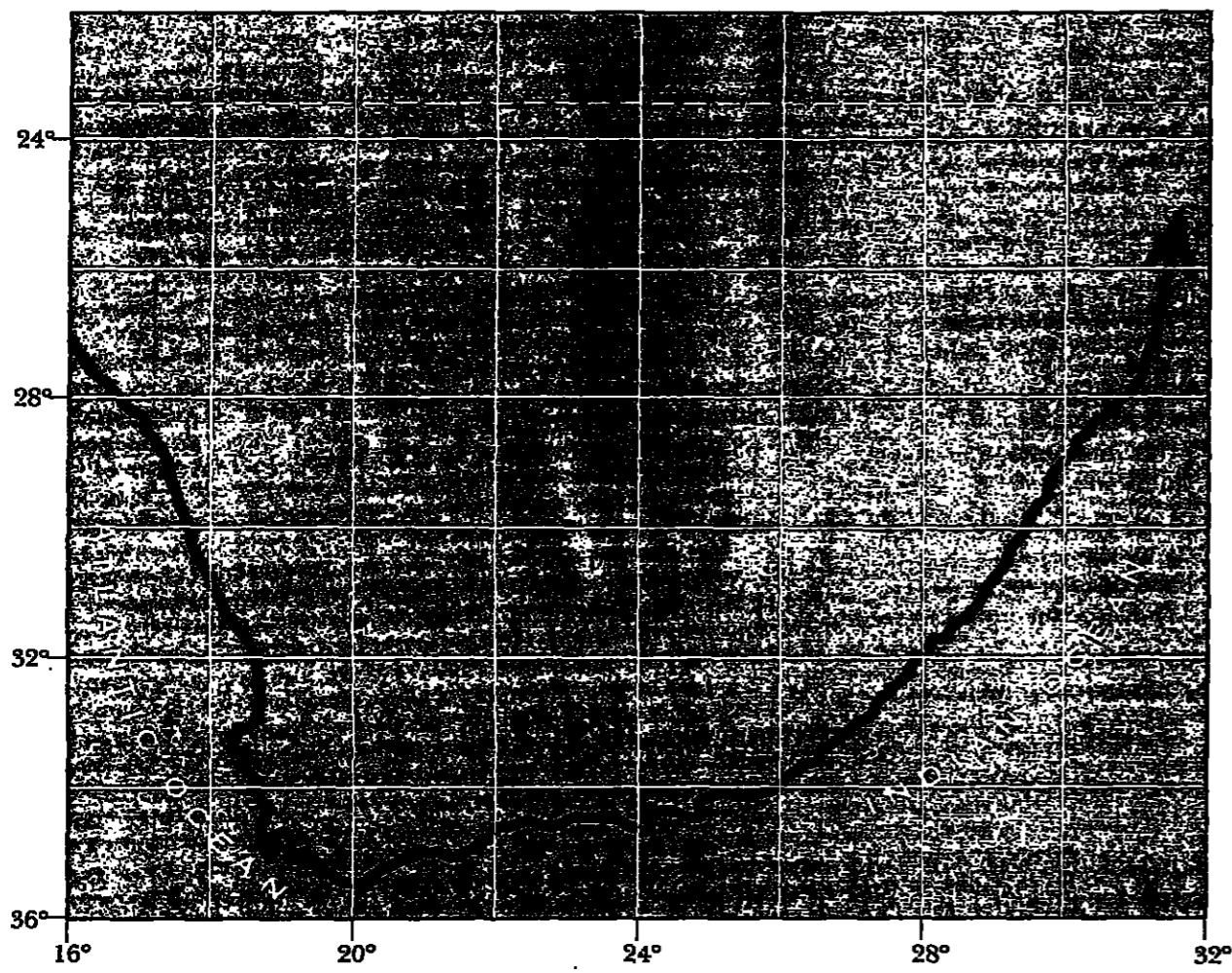
He foresees financially unviable pockets of black-owned land springing up all over white-owned commercial farms, damaging land values, making borrowing more difficult, and reducing productivity. Accusations by Mr Hanekom that a growing number of white farmers are anticipating the problem by evicting labourers is not supported by evidence, claims Mr McIntosh. "But what Hanekom is doing is creating an atmosphere of lawlessness by giving the impression that any eviction is unfair", he said.

Similar emotions are being stirred around urban land, and none more so than District Six. Some would like the 45 hectares which have not been redeveloped to be laid out as gardens, others for the provision of cheap housing. But little attention appears to have been paid to its huge commercial viability, and its ability to provide jobs as well as housing in a city that is experiencing a surge in tourism and is bidding for the 2004 Olympics.

Ultimately, however, the entire land reform programme as envisaged by the ANC will come down to money. This year's allocated expenditure of R452m is less than half of 1 per cent of the national budget. It is not an issue at the moment because the institutional arrangements are not in place for spending even that amount. But as the department of land affairs has tartly reminded the government, "the funding accorded to land reform is not commensurate with its importance".

If a significant share of the demand for land is to be met, the department says it will need "a dramatic increase, both in its budget and its institutional capacity. If these are increased only marginally above present levels, the land reform programme will most likely be a conspicuous failure".

It is a hard message for the ANC, pressed on all sides for increased spending, but committed to deeper cuts in the budget deficit. It is a tougher message for the millions of aspiring landless. But, for many white farmers, it carries the hope the government will be forced to curb its ambitions.



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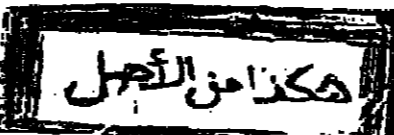
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Please could you help us by taking a few minutes to complete this questionnaire, fold, seal and return it to the research company using the International Business Reply Service - you do not need a stamp or an envelope.

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Yours sincerely,

Rhys David

RHYS DAVID SURVEYS EDITOR

YOUR READERSHIP OF THE FINANCIAL TIMES

1-6

- 1. How often do you usually read or look at: a. Monday to Friday issues of the Financial Times? b. Saturday issues of the Financial Times?

Table with columns for Monday to Friday (7) and Saturday (8), and rows for frequency levels: Very frequently, Quite often, Less often, Never.

- 2. Where do you usually read the Financial Times? (please tick all that apply)

Table with columns for Monday to Friday (9) and Saturday (10), and rows for locations: At work, At home, While travelling, Elsewhere.

- 3. The Financial Times publishes surveys most days each week, either within the main body of the newspaper, or as separate sections. On average, assuming five FT surveys are published per week, how many do you read or look at (either on the day they are published or at a later date)?

Table with columns for number of surveys (1-5) and a row for 'none'.

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The following questions relate to this South Africa survey.

- 4. How much of the South Africa survey did you read/do you expect to have read once you have finished with it? All, Almost all, About half, Less than half, Did not read it - skip to Q11

- 5. Apart from yourself, how many other people will read your copy of this survey? None, 1, 2, 3-4, 5-9, 10+, don't know

- 6a. What will you do with this survey once you have finished reading it? Keep the copy or selected pages for further reference, Pass it on to a colleague, Throw it away - skip to Q7

- 6b. If this survey is kept for future reference, where will it be kept? In the company library/another central location, In your own office, In another office/department, At home, Elsewhere

- 7. A number of statements are written below which might apply to the South Africa survey. Please indicate how strongly you agree or disagree with each statement.

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- 8. Overall, how would you rate the South Africa survey? Excellent, Very Good, Fair, Poor

- 9. Are there any other comments you have about this survey? (please write in)

Blank lines for comments (24), (25), (26)

- 10. Which, if any, of the advertisers listed below do you remember seeing in this survey?

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- 11a. Which, if any, of the following surveys published recently by the Financial Times did you read or look at?

Table listing surveys: Power in Asia, Europe's Most Respected Companies, International Telecommunications, Venture & Development Capital, Chemicals, UK Rail Privatisation, World Economy/IMF, None of these.

- 11b. Which, if any, of the Africa surveys published earlier this year, did you read or look at?

Table listing Africa surveys: Uganda (April), Banking & Investing in Africa (May), Ghana (July), None of these.

- 12. A number of statements are written below which might apply, in general, to the range of surveys produced by the Financial Times. Please indicate how strongly you agree or disagree with each one.

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- 13. In general, how would you rate FT surveys?

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- 14. In which subjects or geographical areas are you particularly interested? (please include any which are not currently covered by the Financial Times)

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- 15. In which, if any, of the following ways do you use FT surveys? (please tick all that apply)

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- 17. In which of the following ways have you obtained copies of FT surveys? (please tick all that apply)

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- 18. Have you ever contacted a company or organisation as a result of seeing an article or advertisement in an FT survey?

Table with columns for Yes - after reading an advertisement, Yes - after reading an article, No.

- 19. If FT surveys were available electronically, in which of the following formats would you be interested?

Table with columns for Computer diskette, CD Rom, Via the Internet, None of these.

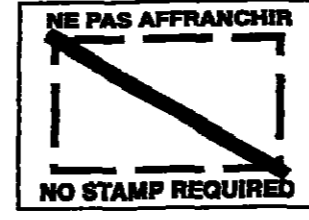
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Foreign policy: by Michael Holman

Tricky balancing act

Policy makers are having to contend with the legacy of apartheid and old friendships

Frequently tugged in different directions by old loyalties and new responsibilities, and often torn between ethics and self-interest, South Africa's foreign policy makers are still trying to come to grips with the complexities of the post-apartheid era.

"South Africa's foreign policy," said President Nelson Mandela last December, "is based on the government's assessment of our country's interests, and our principled stance on issues of human rights, democracy, development and equitable relations among all states."

Putting these principles into practice, however, is proving more difficult than Mr Mandela and his colleagues may have expected. Friendships forged during the anti-apartheid struggle, contributions to the ANC election campaign, the development of new trading partnerships, and the use of aid and investment in the battle for Pretoria's favours, coupled with uncertainty about who actually shapes and coordinates South Africa's foreign policy, have all complicated decision-making.

deputy foreign affairs minister Aziz Pahad points out that the transition from pariah state to fully-fledged member of the international community has required a fundamental re-organisation of his department, while simultaneously coping with the demands posed for the first time a host of international bodies, and embarking on complex negotiations ranging from the Lomé Convention to nuclear disarmament and a new international trade regime.

No fewer than six foreign affairs departments had to be amalgamated - from the outgoing government, the ANC, and the four "homeland" governments. South Africa's representation abroad more than doubled - in 1999 Pretoria had diplomatic relations with only 31 countries, today it has more than 120 missions and entry or readmission to 16 multilateral organisations.

Not making the new government's task any easier was the fact that expectations of what South Africa could do - particularly in Africa - were inflated by the image of Mr Mandela, and the hope that he could provide the moral leadership that the continent has been seeking.

It was always unrealistic, say foreign ministry officials, to expect South Africa to step in and resolve the problems of Rwanda or Burundi, Liberia or Somalia, or to transform the Organisation of African Unity into a more effective body. Even closer to home, say officials, South Africa has to tread carefully. As one official puts it: "We function as part of southern Africa and Africa and therefore share an interest in accessing European Union markets... yet there is also competition, which creates an element of rivalry... which must be handled with circumspection at inter-governmental level."

While South African analysts acknowledge these points, they argue that there is another factor which hampers the conduct of foreign relations. It is far from clear, they say, who formulates, or co-ordinates, policy - President Thabo Mbeki, the foreign minister Alfred Nzo, widely regarded as ineffectual, or the departments of foreign affairs and trade, as well as parliament.

"All weigh in, with confused and conflicting results," writes Greg Mills, who is especially critical of the conduct of relations with the two Chinas.

Both Beijing with Taipei are lobbying vigorously, employing aid, trade, investment to win over Pretoria. Trade with Taiwan is running at about \$2bn a year, compared to \$1.3bn with China, but this will be boosted when Hong Kong reverts to China next year.

This, say senior South African officials, should be a deciding factor in what they see as an inevitable decision to down-grade links with Taiwan. Pretoria's reluctance to move with Taiwan may be explained by the fact that the island's government donated some \$10m to the ANC election campaign fund - China provided \$2m - and a grateful Mr Mandela remains reluctant to antagonise his generous backers. This is not the only example, say critics, of donations to the ANC which appear to influence policy.

Politics: by Roger Matthews

When Mandela goes

In little over a year the president will begin formally shedding national responsibilities

Strolling hand in hand with a new companion to meet the neighbours is probably a pleasant way of spending a sunny Sunday afternoon. If you are 78 years old, a head of state, and a national icon, it probably also serves to reinforce your place in the country's affections.

Whatever the burdens of office, Nelson Mandela retains an instinctively populist touch. But his romantic wanderings in the Johannesburg suburb of Houghton last month also served a more serious purpose. It was a reminder to the nation that he has other matters on his mind, and in little over a year will begin formally shedding national responsibilities and spending more time with Mrs Graca Machel, the widow of the former president of Mozambique.

Mr Mandela's confirmation that he will not seek re-election as president of the African National Congress in December next year indicates that the transition is already under way. Although ministers can still expect calls from the president at unexpected hours, there is a growing sense that Mr Mandela is increasingly withdrawing from the daily management of government.

The succession has also become clearer over the past six months, with Thabo Mbeki, the deputy president, strongly established to become the next leader of the ANC, and head of state following the general election in April 1999.

For a slow-moving political organisation which needs to accommodate a broad range of views, consensus within the ANC is a painstaking process. But once headed in a particular direction it is also difficult to deflect.

With the imminent departure from politics of Cyril Ramaphosa, the secretary-general of the ANC, Mr Mbeki is left without a serious party rival. A deft politician, with a keen understanding of the currents within the ANC, Mr Mbeki is unlikely to surrender his advantage.

The key to the future of the organisation under Mr Mbeki, and therefore to the overall evolution of South African politics, will largely depend on the emphasis he places on retaining consensus.

On economic policy issues there are already clear divisions in the ANC which may be hampering the implementation of policy but have yet to become confrontational. But personality clashes have surfaced, and none more emphatically than the one which led to the expulsion from the organisation of Bantu Holomisa, the former military leader of the Transkei homeland.

Mr Holomisa, who won most votes in the elections to the ANC national executive in 1994, was stripped of his membership and seat in parliament after making a series of allegations relating to payments made by Sol Kerzner, the hotel magnate, to the ANC and at least one minister. Although one allegation was later confirmed to have been correct it was not enough to save Mr Holomisa, who claims he is only motivated by a quest for truth.

Mr Holomisa is in no doubt that Mr Mbeki orchestrated the campaign against him, but will find a platform from which to mount counter-attacks much more difficult outside the ANC. Should Mr Holomisa now slip into political oblivion, as the ANC leadership hopes, it will be a timely warning for other party members tempted to be publicly critical of government ministers.

The alternative for Mr Holomisa, which he rejects, would be to establish a rival political organisation, and seek to draw in other ANC dissidents.

If such a move attracted significant support it might mark the start of the ANC's dissolution as a liberation movement, and its reformation as a political party. Mr Holomisa does have high-profile political friends, such as Winnie Mandela, the president's former wife, but she, too, has shown little desire to leave the ANC despite having been sacked as a deputy minister. Mr Holomisa has also been courting members of the communist party, but their influence would similarly decline outside the ANC umbrella.



Other matters on his mind: Nelson Mandela and Graca Machel stroll through the streets of Houghton last month

lowing the adoption of a new national constitution, which set itself the target of winning power in the 2004 elections.

Although its share of the vote increased slightly during local elections in the Western Cape earlier this year, it remains for the great majority of black voters the symbol of everything against which they struggled for so long.

FW de Klerk, the National Party, appears to have had little response from exploratory talks with other minority parties on a possible political realignment which would focus on shared values rather than racial divisions.

Meanwhile, in parliament, the Nationalists are only adjusting slowly to the unaccustomed role of opposition, where their flawed past makes them vulnerable to ANC counter-attacks.



Vigilante action: People Against Gangsterism and Drugs launched attacks against drug dealers

Lawlessness: by Roger Matthews

R31bn crime bill

South Africa is emerging as one of the global centres of the drugs trade

No single issue has posed a greater threat to international perceptions of the new South Africa than the growing incidence of crime.

The most violent crimes inevitably capture the biggest headlines, with South Africa suffering a per capita murder rate six times higher than the US, and topping the world statistics for rape.

Last year there were more than 21,000 crime-related deaths in the country. Burglaries and armed hijackings of vehicles have also risen sharply in the past two years, particularly in the industrial province of Gauteng, which includes the greater Johannesburg area and the capital, Pretoria.

The paucity of border controls has also been highlighted by a US government study which warned that South Africa was emerging as one of the global centres of the drugs trade. It estimated that there were more than 130 syndicates now operating in the country, while the value of South Africa's own marijuana crop was put at \$4.5bn.

President Mandela and his ministers involved with law and order have this year declared the war against crime to be their top priority and have deployed troops to assist the police.

They were particularly sprung in August by the emergence of vigilante groups prepared to take direct action. People Against Gangsterism and Drugs (Pagad), a predominantly Moslem organisation centred on Cape Town, murdered a prominent drug dealer, and have since launched attacks on a number of others. Subsequent opinion polls showed widespread public support for Pagad's action, and the ANC said it would debate the re-introduction of the death penalty.

the black townships, while police relied on confessions for obtaining convictions. Democracy, they say, has made crime much more visible, and served to reveal extensive corruption and involvement in criminal activities by the police.

However, the police claim they are severely understaffed. The force finds it difficult to retain officers because of low pay, poor morale, inadequate capital spending, and higher salaries being offered by burgeoning private sector security companies.

Problems within the judicial system also contribute to the low level of convictions, with the Nedcor study showing that for every 1,000 crimes only 77 convictions were achieved. Of those 77, only 36 result in imprisonment, with just eight attracting sentences of two years or more.



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10 SOUTH AFRICA

Tourism: by Mark Suzman

Problems stifle euphoria

Crime casts its shadow over a dramatic rise in tourist arrivals

With gold mining, the traditional mainstay of the South African economy, in long-term decline, the country has been desperately searching for alternative industries to create jobs and supply much-needed foreign exchange revenue.

For more than a decade, tourism has been touted as the most promising alternative: given the country's combination of spectacular game parks, pristine beaches, excellent weather and a modern transport and telecommunications infrastructure, there has always been clear potential for rapid growth.

Until the final demise of apartheid, however, massive expansion was impossible. The combination of the country's negative international image and perceived political instability acted as a strong deterrent to visitors.

As a new white paper on tourism, published last June by the government, puts it: "Tourism development in South Africa has largely been a missed opportunity. Had its history been different [the country] would probably have been one of the most visited places in the world."

After the 1994 elections, however, that opportunity began to be grasped in earnest - and South Africa has already started to reap the benefits. Following 30 per cent growth in 1994, the number of overseas visitors shot up 52 per cent in 1995, exceeding 1m for the first time. Early indications for this year are that the momentum is easing.

With all this taking place when the global tourist market grew by only 3.2 per cent, that was enough to give South Africa the accolade of the world's fastest-growing tourist destination. Perhaps more important at a time when the country's balance of payments came

under growing pressure, total foreign exchange earnings from tourism rose to R18bn.

This rapid expansion has prompted international hotel groups to enter the market in earnest, with companies such as Hyatt, Hilton and Intercontinental making investments for the first time. While the majority of visitors remain European, particularly from the UK and Germany, there has been a resumption in American travel and promising interest from new markets in Asia and the Middle East.

There is certainly scope for more growth. Tourism contributes only 3 to 4 per cent to South Africa's GDP, compared to a global average of around 11 per cent. Meanwhile growing competition in the travel industry (Virgin Atlantic will this month become the latest airline to start regular flights from the UK to Johannesburg), combined with the recent fall in the rand, means that despite the long journey for most visitors, a South African holiday is now remarkably good value.

But amid all this good news, serious problems are emerging. Most problematic has been the country's high incidence of violent crime. Sporadic high profile incidents such as car hijackings have already led to several cancellations by tour groups as the country's one-time reputation for political problems is replaced by a perception of a violent and lawless society.

This has been exacerbated by the fading of interest in the country following the burst of international sympathy after the 1994 election and global admiration for President Nelson Mandela. Also, the rapid growth in the number of visitors has exposed serious capacity constraints in the hotel industry, and many departing tourists have expressed dissatisfaction over standards of service.

Both these problems are manifest in the Western Cape, which with Cape Town and the wine region remains the country's premier tourist destination, attracting some

60 per cent of all visitors. After years of hotel occupancy rates averaging around 50 per cent, last year they soared to 85 per cent, with many overbooked during the holiday season.

There is a shortage of top quality accommodation in the greater Cape Town area, and although up to 20 new hotels are being planned, it will be several years before they are ready to take guests. The Cape has traditionally had a reputation as the least crime-ridden area in the country, but some vigilantism and gang wars in surrounding townships have recently tarnished its reputation.

Preliminary figures for the first half of 1996 appear to indicate slow or no growth in overall tourist numbers with only a small increase in the Western Cape. Although its white paper paints a rosy picture of the future - envisaging 1m new tourism-related jobs and a doubling of the market as a proportion of GDP by 2005 - the government has not offered any new resources to the industry. Indeed, it has cut the tourism marketing budget to provide extra money for more politically sensitive areas such as healthcare, education and policing.

This has proved very frustrating for the sector. "Government funding at all levels has been woefully inadequate," says Gordon Oliver, chief executive of Captour, which promotes tourism around Cape Town. "They still seem to have a fundamental lack of appreciation about the real economic value of tourism."

The situation is further complicated by other factors. Prominent among them is a residual suspicion of - and sometimes hostility to - tourism on the part of the black community. Only an estimated 20 per cent of black families have sufficient resources even to take advantage of internal tourism opportunities, and many remain unconvinced that promoting the sector does more than enhance the revenue of white hotel owners.

"We need to show how the black community can get

involved in everything from transport to catering to entertainment as well as running tourist operations themselves", admits one government official.

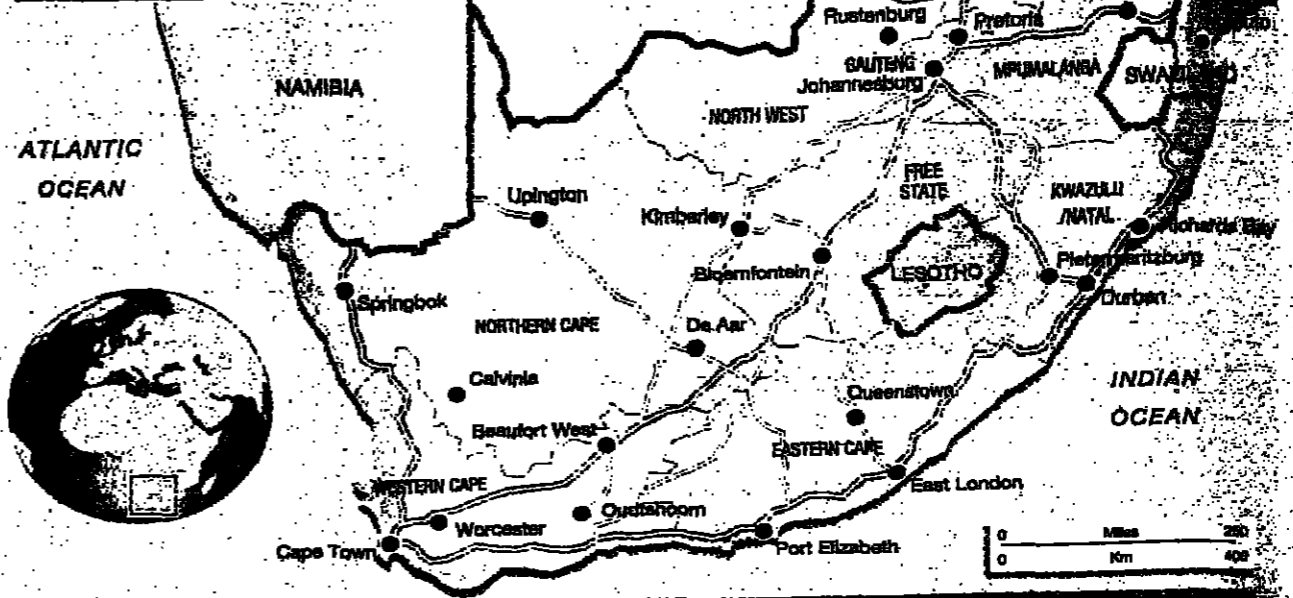
For some analysts, however, this slow-down represents a useful breathing space to allow the country to start planning its tourist strategy with more care, thereby ensuring that it does not inadvertently transform itself into a low budget package holiday destination.

This concern has already manifested itself in South Africa's game parks, where an increasing number of private operations are focusing on the high margin, low impact "eco-tourism" market to preserve resources while maximising revenue.

Even government-run institutions such as the famous Kruger Park impose strict restrictions on the number of overnight guests to minimise potential environmental damage, and coastal resorts are trying to manage growth and new developments so as not to damage irreplaceable resources.

"We've been dazzled by the 1994 and 1995 figures, but in the long term sustainable growth in tourism is probably more on the order of 4 to 6 per cent rather than the 15 to 20 per cent the government has been predicting", says Wolfgang Thomas, general manager for economic development at Wesgro, an agency promoting business in the Western Cape. "If we don't get over-ambitious I think we can manage that quite successfully."

But according to Mr Paolo Jordan, the minister for tourism and the environment, while the government has a role to play, the burden for managing that growth will, for the foreseeable future, be in the hands of the private sector. "The government will play its part in promoting human resource development to improve service levels and productivity in the industry, to provide bulk infrastructure for tourism purposes and to ensure that industry develops along sustainable principle", he says.



General information

Area: 1,221,037 sq km
Population: 45.82m (1995)
Currency: Rand (R)
Exchange rate: Sept 26, 1996
R1: R13.950

Head of state: President Mandela

Ministers: T M Mthembu - Deputy-president; Prof A K Avenant (Water Affairs and Forestry); Prof S M E Swaneq (Education); M S Rutherford (Home Affairs); A Erwin (Trade and Industry); M G J Prinsloo (Mokoteli (Water and Population Development)); D A Hendriks (Land and Agriculture); Z P Jordan (Environmental Affairs & Tourism); P M Mkhomo (Mineral and Energy Affairs); S R Mshengu (Transport); T A Maseko (Finance); Y T Mshengu (Labour); J Mshengu (Defence); M V Mshengu (Provincial Affairs and Constitutional Development); M S D Mthembu (Mashariki (Housing)); F S Mthembu (Safety & Security); S E Mthembu (Constitutional Services); J Nelson (Posts, Telecomms and Broadcasting); L Mthembu (Arts, Culture, Science and Technology); A B Nene (Foreign Affairs); A M Omer (Justice); J T Tshepo (Public Works); M S Sijose (Public Enterprises); Z S T Slowey (Public Service and Admin.); S V Tshwete (Sport & Recreation); Dr N C Zuma (Health)

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High Commissions: Australia: Tel (012) 342 3740; UK: Tel (012) 433 121

Public holidays: Fixed dates: Jan 1 (New Year's Day); Mar 21 (Human Rights Day); Apr 27 (Freedom Day); May 1 (Workers' Day); Jun 16 (Youth Day); Aug 9 (National Women's Day); Sep 24 (Heritage Day); Dec 18 (Day of Reconciliation); Dec 25 (Christmas Day); Dec 26 (Day of Goodwill)

Variable dates: Good Friday; Family Day (the Monday following Easter Sunday)

Mining: Mining sector accounted for about 7 per cent of GNP in 1995. Gold accounted for 20 per cent of total 1995 exports. South Africa is a major exporter of iron, granite, asbestos, manganese, chrome and platinum ore and coal. Foreign exchange earnings from mineral exports were worth R43.5bn in 1995. Coal exports in 1995 were worth R6.3bn.

Economic summary

	1994	1995
Total GNP (US\$bn)	110	133
GNP per capita (US\$)	2,787	3,017
Real GNP growth (%)	2.5	3.2
Inflation, consumer prices (%)	9.0	8.7
Share prices, Ind com (1985=100)	224	294
Agriculture output (1979-81=100)	105.5	98.0
Mining production (1990=100)	99.1	99.5
Gold (tonnes)	582.0	527.0
Diamonds ('000 carats)	10,854	8,668
Iron ('000 tonnes)	30,489	31,966
Copper ('000 tonnes)	180	192
Manganese ('000 tonnes)	2,831	3,198
Coal production (m tonnes)	195	206
Manufacturing output (1990=100)	94.5	100.0
Exports fob (Rbn)	80.0	101.0
Gold (Rbn)	22.6	20.2
Imports fob (Rbn)	79.15	80.8
Balance of trade (US\$bn)	3.2	0.7
Current account (US\$bn)	-628	-3,189
External debt (US\$bn)	27.35	32.0
Exchange rate (R per \$)	3.549 (av)	3.527 (av)

Compiled by Abdul S. Barrow

Agriculture: Although the relative importance of agriculture has declined - accounting for only 4 per cent of GNP in 1995 - the country remains a net food exporter. The sector is highly diversified and a wide variety of food crops are successfully grown. Main crops include maize, sugar, citrus and deciduous fruits, grapes, soya-bean and groundnuts. Livestock farming also important. Wool exports are also starting valuable foreign exchange, \$704.5m in 1995-96.

Industry: In 1995 the industrial sector as a whole contributed 22.1 per cent to GNP and employed 26.1 per cent of the workforce.

Sources: South African Reserve Bank; Development Bank of Southern Africa; Minerals Bureau; Nedcor Economic Unit; Chamber of Mines

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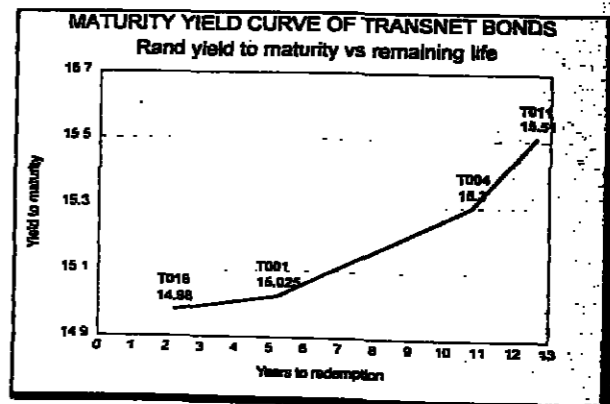
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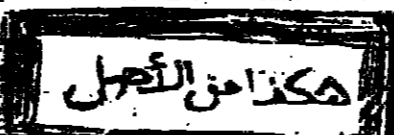


Transnet Rand Denominated Bonds

Bond Code	Redemption Date	Coupon Rate	Issued R million
T007	01 Apr 1997	12.5%	2200
T016	15 Feb 1999	11.5%	2600
T001	01 Apr 2002	12.5%	1300
T004	01 Apr 2008	7.5%	4100

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FINANCIAL TIMES SURVEY

BUSINESS SCHOOLS: an A to Z Guide

A year to remember

Europe has to meet the challenges of technology and US schools, writes Della Bradshaw

Even to the most conservative business school pundit, 1996 has been a very good year. Not since the heady days of the 1980s have business schools seen such a high number of applicants for places on their flagship master of business administration (MBA) degrees. Funds have been flowing in to bolster academic coffers and fund the implementation of the technology needed by business schools into the next millennium.

While a few years ago, graduate law was the fashion, today management is all the rage. "The MBA is the degree of choice, now," says Ms Meg Manderson, director of Masters Admissions at the Massachusetts Institute of Technology Sloan School of Management.

The MBA's rise in fame and fortune has been particularly noticeable in the US. At the Sloan school, for example, over 3,000 applications were received for some 350 masters places. At Duke University's Fuqua school of business it has been a similar story: more than 2,900 applications were received for just 325 places - and those are just two examples.

In Europe as well, the biggest and the best schools are responding to increased demand. Inssed, at Fontainebleau near Paris, decided to expand its MBA programme this year because it had been turning away too many highly qualified applicants.

The increase is part of a general expansion plan by INSEAD which includes a 30 per cent increase in research, an additional 18 faculty members and a large building programme. The expansion is a result of an

aggressive five-year fund-raising campaign which began in September 1995.

The target was to raise FF700m (£88.6m) to fund research at the school and the money is flooding in from corporations and individuals alike.

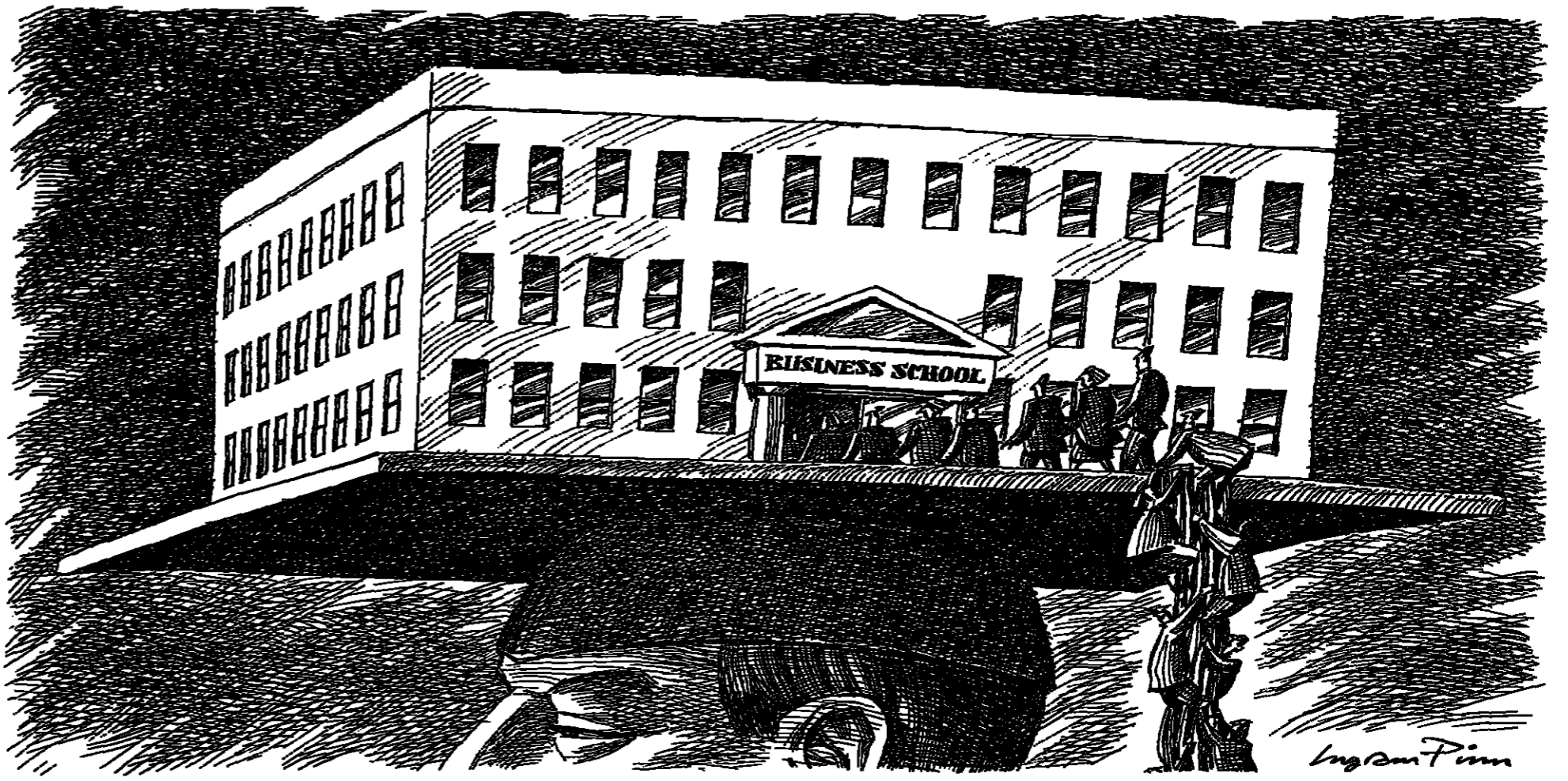
Raising funds the American way has also given a massive fillip to management education in the UK, where entrepreneur Wafic Said gave £20m earlier this year to fund the development of the Said Business School at the University of Oxford.

The growing importance of management education in Europe has led to increased pressure for an official accreditation scheme to sort the good schools from the mediocre - and the bad. Leading the way has been the UK, where, later this month, a scheme should be approved with implementation likely in 1997.

The proposed UK MBA accreditation scheme will award three grades: "accredited" - about 40 per cent of courses, "recognised" and "fail". The scheme has been devised because of pressure from individuals and companies alike who want guidance on courses available.

But the Association of Business Schools and the Association of MBAs, the organisations which have devised the scheme, have also been goaded into action by fears that the American accreditation body, the American Assembly of Collegiate Schools of Business (AACSB), may develop an internationally-recognised accreditation scheme which is based on US values.

One reason for AACSB's push into Europe has been



the growth of courses run by US business schools outside the UK. June this year, for example, saw the launch of Fuqua's global executive MBA programme which combines traditional teaching and technology to weld together a master's course which can be studied in Europe and even further afield.

In executive education, too, schools are taking their wares overseas. Harvard, the doyen of business schools, decided this year to hold one of its shorter programmes, *Achieving Breakthrough Service*, in Switzerland and Toronto as well as Boston.

While US MBA programmes are still largely full-time courses, part-time, modular and distance learning MBA courses are proving particularly popular in Europe, where managers are unwilling to give up their

jobs to study. Fewer than 30 per cent of students in the UK, for example, study full-time, and those that do so are often investing their redundancy payments to do the course - in some instances one third of a school's full-time MBA students are redundant managers.

But the biggest challenge for business schools - and the biggest opportunity - has been in the implementation of technology to deliver course material, both on campus and to more remote locations. At the forefront has been Harvard, which has taken less than a year to computerise its campus under the watchful eye of newly-appointed dean Kim Clark.

The noted Harvard case study method remains at the

heart of teaching but students can now plug into the text on their PCs in the main campus buildings or in their dormitories. The cases are illuminated with video footage on the computer screen so students can assess the situations by the expression on a manager's face as well as by the word on the page.

The Amos Tuck School of Business Administration at Dartmouth College, famous for hosting the first MBA course at a US university, is also turning to technology for its day-to-day teaching.

Its plan has been to replace the traditional perusal of corporate case studies with live data or recent information fed into the school from co-operating commercial organisations. Every student will be working with up-to-date information which has been supplied by a real corporation.

Perhaps the biggest technological impact on business schools will come from the use of the Internet for electronic messaging and data transmission. Some schools are even relying heavily on the Internet for transmitting course material.

In the US, the University of Phoenix already sponsors an MBA degree which allows students to attend classes and submit homework assignments online. Phoenix University now has more than 1,500 students enrolled on its Internet masters programme.

In the UK, the Southampton Institute is using the Internet as the backbone for its three-year part-time MBA course which began in January 1995.

The main selling point for the online degrees is convenience - students can study when and where they

choose. An added advantage is that they train students to use the Internet.

Most of the elite business schools still reject long-distance degree courses in favour of a campus-based approach, where students can interact face-to-face with each other as well as with their tutors. Nevertheless, all business schools acknowledge that the Internet will play a growing role in keeping in contact with their graduates. This is particularly important in the US where so much of the university funds come from alumni donations.

It will also help the schools retain the loyalty of their alumni when they need to be retrained. The latest buzz phrase in business school jargon - lifelong learning - is dependent on access to the sort of long-term communications

technology that the Internet provides.

Lifelong learning will bring a new set of challenges. As more and more management training takes place within the office, rather than on the campus, other sorts of organisations - specialised training companies or individual trainers - could steal away the business from under the noses of the more traditional schools.

Corporate business schools, too, are proving an increasing challenge to their Ivy League peers. The Arthur D Little school of management, for example, has long offered a masters degree in management.

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II BUSINESS SCHOOLS

A
The quest for acclaim

ACCREDITATION, in some formal recognition of the quality of programmes offered by business schools, is currently the hot topic in European business schools after some years of ignoring it completely.

In the UK, AMBA (the Association of MBAs) and ABS (the Association of Business Schools) have come up with a joint plan for accrediting MBA programmes. The spur has been fears that European bodies such as EFMD (European Foundation for Management Development) might launch their own accreditation schemes or even that the AACSB (the American Assembly of Collegiate Schools of Business, which accredits all business schools in the US) might extend its operations to Europe.

But the accreditation issue is fraught with complexity and the AMBA/ABS scheme is itself complicated, with a proposed two-tier system of "accredited" and "recognised" MBA programmes.

Most business schools recognise the need for some

measures to clear a confused market, especially in the UK with well over 100 institutions offering an MBA.

Dr Ian Turner at Henley Management College says that, while he welcomes accreditation, he is concerned that "it might stifle innovation and creativity."

There are also concerns that accreditation may lead to a lowering of standards rather than an improvement - a frequent complaint in the US.

And it seems likely that some of the smaller UK schools could face the end of the road if they fail to gain accreditation.

Traditionally, the leading European schools have been lukewarm about the whole issue, preferring, as they say, to "let the market do the accrediting."

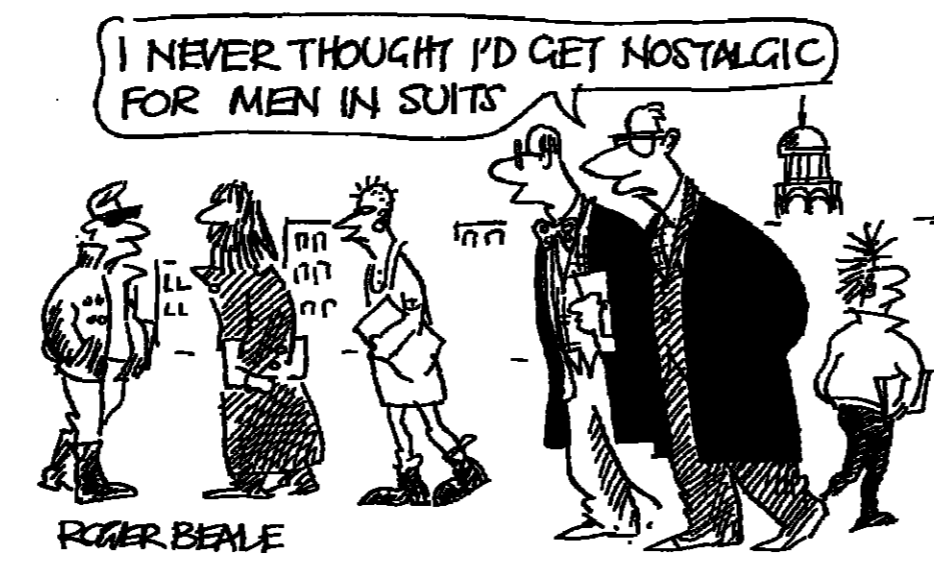
Mr Leo Murray, the ebullient head of Cranfield School of Management, tends to maintain that view. He argues that accreditation is a minor issue backed by no evident market demand and that the UK market, given the number of published guides and newspaper articles about MBA, is not as opaque as is usually supposed. He describes the issue as "nothing more than a bureaucrat's dream, which serves little real purpose for prospective MBAs."

On that point Dr Turner agrees. "Business schools are in danger of being audited to death," he says.

B
Names that count

ALUMNI are people who have already been to business schools. Strictly speaking they should hold some degree, usually an MBA, from the institution but many schools regard anyone who has passed through their doors to take a programme, however short, as an alumni. There are good reasons for this.

The schools see their alumni as a valuable resource. Word-of-mouth recommendation is one of



the most effective forms of advertising for business schools and alumni can usually be counted on to say the right things. Most schools have lists of alumni who are prepared to talk to the media or prospective students.

Many help to screen applicants through interviews and will often support their alma mater at recruitment fairs and the like. Perhaps most importantly, they can be a useful source of job prospects for graduating MBA students and, especially in North America, may be a source of significant financial endowment.

So while alumni may be gone they are most certainly never forgotten. While business schools vary in the strengths of their alumni, maintaining and building contact with them is a crucial area that many schools invest in heavily.

For example, they sponsor newsletters and class reunions to bring alumni back on campus. They encourage far-flung graduates to set up groups wherever they are in the world and any faculty member or even the dean who happens to be in the area will almost certainly visit the group.

Many schools are now even offering free or low-cost "refresher" courses to lure alumni back to their old school. Additionally, a number of schools are now extending their placement or career advice services to alumni, often, as at Cranfield, throughout their career.

A group of European business schools have now linked their alumni networks together in a system called Alumnet to offer wider contacts and links. The schools involved are Bocconi, Cranfield, IESE, ESADE, WHU Koblenz, ESC Lyon, Sovlay and Vlerick.

B
Change at the top

BUSINESSMEN AS DEANS: These days deans mean business. While the overriding qualification for the top job in the past was a solid academic background and a long list of research publications, in the new commercially-orientated world of US business schools deans need to be ambassadors, as adept at marketing as they are at macro-economics.

The big three business schools to have appointed business people as deans are the Wharton school, at the University of Pennsylvania, Darden, at the University of Virginia and, most recently, the Fuqua school at Duke University.

Mr Rex Adams took up his new job as the fourth dean at Fuqua in June after 30 years in the oil business. He brings ambitious plans on how to finance the growth of the school, increasing the number of faculty there by 50 per cent over the next five years.

New faculty and old will see a change in the focus of teaching at Duke, although Mr Adams is adamant that quality research will continue. He intends to alter the balance of courses by freezing the size of the daytime MBA programme and expanding both executive MBAs and shorter executive courses. That will bring in more cash to fund the expansion. He believes business schools are increasingly open to the idea of appointing business people to the

position of dean and there is no shortage of businessmen who covet jobs. The problem, he believes, is finding such people with sufficient knowledge about the world of academia.

C
Only the best will do

BUILDINGS: High-quality facilities make a big difference to the experience of attending a business school. Many spend huge amounts of money updating or completely rebuilding their premises. Most executives and MBA students have recently left modern well-equipped offices and few are willing to settle for less.

Most new buildings have gone up in the US with stunning new facilities in place or under construction at places like the Haas School of the University of California at Berkeley, Stern in New York, Darden at Virginia University and Cornell and Goizueta (Emory University in Atlanta).

In Europe, there is building work or refurbishment going on at most schools. Most notably, in Manchester, the new Manchester Federal School of Business and Management, which links Manchester Business School, the School of Management at UMIST, the university departments of accounting and finance, and the programme of policy research in engineering, science and technology, is going ahead with a new £5m-plus, 6,000 sq m building.

With a new business school building coming in at \$30m and upwards, the ability to raise the large sums needed to pay for modern

facilities may well be a key competitive factor for business schools in the future.

In terms of what should be available, the very minimum requirements are a good library of management and business books, access to national and international databases and communication systems, CD-Rom files and so on. While most schools tend to have computer labs, many now require students to turn up with their own lap-top computer and provide input jacks in every conceivable corner of their buildings to allow access to their own and international networks. Indeed *Theseus*, an up-and-coming school near Nice in the south of France, has taken this route and abandoned computer labs altogether on the grounds that "we don't have telephone labs."

D
Money for new rope

BURSARIES: Most schools offer some form of scholarship for degree programmes. However, the number and value vary enormously ranging from totals available of well over \$1m at some US schools to a few thousand pounds in the UK. Most are linked to merit (a high scholastic achievement and potential that will reflect well on the school), need (high potential but few resources) or specific groups (minorities or women). Few scholarships cover all costs.

Schools have various reasons for offering scholarships. Some use them to attract the best students in order to increase their ratings in GMAT scores, grade averages or salaries on graduation. Others use them to attract a particular type of student or even a single individual. They might, for example, be eager to attract students from a particular newly emerging country in order to develop future links.

In such cases scholarship competition between schools can become intense. In one real-life case a student was wooed by two top schools on opposite sides of the world. One offered a full tuition scholarship; the other offered full tuition, accommodation and day-to-day expenses. The latter won. Scholarship help, in other words, is becoming one of the marketing tools that business schools employ.

C
Real life creates problems

CASE METHOD: The case method simply means that subjects, from accountancy and statistics to marketing and corporate strategy, are taught using case studies of actual companies' experiences. These are usually framed as narratives.

Some will have a mass of supporting data, relevant and otherwise. Others will have little and students, like managers, will be expected to respond on the basis of the information available.

Very often the case study will end with the central manager facing a dilemma which students must analyse and then justify the action they recommend. The virtue of the method is that it reflects the messy, cross-functional nature of business life where there are no clear-cut problems and no right or wrong answers. Schools that use case studies exclusively say that subjects such as accountancy can be taught using the method; others argue that it is best suited to broader areas such as marketing or strategy.

The case method usually involves calling on a single student (sometimes a group) to present his or her analysis of a dilemma contained in the case, and the recommended action, to the class.

The subject is then thrown open to discussion where objections are made, alternatives are offered and so on. Often the professor will take only a minor, facilitating role in the discussion. Many schools use "cold calling", which means that none of the students know which individual or group will be called on to give the initial presentation. As a result, since an inarticulate or poorly-prepared response is likely to lead to ridicule and low grades, every student

prepares the case meticulously.

One problem with the case method is that cases take a lot of time and resources to find, study and write. Few schools could write all their own cases even if they wanted to, and most use studies prepared by other schools in addition to their own. Harvard, an exclusively case-method school, is probably the most prolific source.

The predominance of American cases from this and other US schools provokes criticisms elsewhere that the case method results in an inappropriate cultural bias. For economic reasons old cases are used which do not reflect current problems and issues.

A further criticism, especially from employers, is that the case method develops a habit of concentrating on the overview of management problems rather than the detail of how to solve them. This may be one of the reasons why so many MBAs go into management consultancy, and why there are complaints that when they walk into their first job they act like the chief executive.

Nevertheless, the case method seems to be coming back into fashion. It remains a stalwart of MBA programmes around the world if only because it stimulates class discussion and forces students to think for themselves (and think about real business problems).

Many students say it has significantly helped them to increase their self-confidence. But it can provoke some cut-throat competition, particularly where grades are awarded for class participation. Gaining "airtime" as students tend to call the opportunity to speak, becomes almost as important as understanding the arguments that are being put forward and learning something from the case.

Cases may get a new lease of life through the application of new technology. Information technology has been slow to make an impact in management education because learning in this way presents bigger problems than the science suggests.



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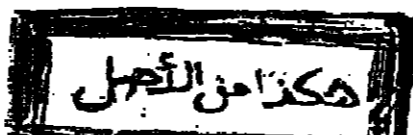
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From the outside

The proof of the pudding

BUSINESS SCHOOLS II

D
From the outside

DISTANCE LEARNING: The huge growth in the number of MBAs awarded in recent years is largely due to the distance-learning programmes. They are most common in the UK, with Henley Management College and the Open Business School (part of the Open University) each having more than 4,000 distance-learning students spread throughout the world.

Students study in their own time at home or even while travelling, and programmes can take three years or more to complete. Distance learning has its roots in the old-style correspondence course and to some extent shows that much learning material is print-based. However, the growth of technology such as multimedia, video and computer links, is starting to have an impact. This is especially so of computer-based communication systems such as Lotus Notes and, of course, the Internet. This allows students much more contact with their business school faculty and with each other.

Many schools, most notably the Fuqua School at Duke University in the US, are now starting to exploit these technologies to enter the distance-learning market on a global scale, often combining it with classroom-based modules. Not surprisingly, there is a fairly high drop-out rate and schools do a lot to try to break the isolation of students.

As well as electronic communication, many schools provide personal tutors, whom students can telephone with problems, hot lines, summer schools, weekend seminars and local support groups.

How students finance their MBA programmes (%)

	World	N America	Europe	Rest/world
Self-financed	78	88	77	70
If self-financed, how was money raised?				
Bank loan	27	38	25	17
Redundancy pay	2	1	5	1
Savings	44	38	43	55
Parental help	21	17	23	24
Spouse's support	8	8	6	4

% of respondents. % of respondents accounted by students in each country.

Sources: WUOL MBA/ EU 1996

E
Going hand in glove

ENTREPRENEURSHIP:

Entrepreneurship and business schools many not go together automatically in most people's minds - the assumption is often that they are geared to the needs of rather stolid "big business".

But in fact most are hotbeds of enterprise in both teaching - the number of MBAs demanding elective subjects in new ventures or how to write a business plan has been one of the growth stories of the 1990s - and research. Many schools have both fostered close links with local entrepreneurial companies and numerous academics have gone off to start up their own small companies.

In part, this reflects the economic insecurity of recent years. MBA students in schools as diverse as Stanford, Chicago and Wharton in the US and Insead, Imperial College and IMD in Europe have preferred to risk their careers on their own ideas rather than in an apparently secure job that might at any time be subjected to change.

But it is also a response to a realisation that most job growth has come in the small and medium-sized sector and also that even the largest corporations are looking for evidence of an entrepreneurial cast of mind.



New tools with roots in old-style correspondence courses

Not least, too, has been the growth of entrepreneurship within the business schools as a respectable and fast-growing area of expertise.

● In November, the FT will launch a new series, "Mastering Enterprise", which will appear as a weekly tabloid supplement to the main newspaper.

Way beyond a joke

ETHICS: Much like entrepreneurship, not many people expect ethics to feature as a hot issue at a business school. In fact, most schools have included ethics either as a separate part of their core MBA curriculum (often as a compulsory subject) or have made efforts to ensure that an ethical dimension pervades all their teaching since the mid-to-late 1980s.

Mainly this was a response to the often notorious corporate scandals of the time.

Inevitably its still produces a few jokes. "It must be a short course" or "Isn't business ethics an oxymoron?" are only the best known.

But with the growth of a much more aware consumer body that is interested and takes an active part in environmental issues, more active shareholders, ethical investment trusts and a general feeling that corporations must be responsible to all their "stakeholders" - and not only to shareholders - the concept of business ethics has become of paramount importance.

It is true that some business schools have been clumsy in the introduction and treatments of ethics as a subject.

But most cover the area well and some, such as IESE in Barcelona, which with its Catholic background has always espoused an approach to business that puts people at least equal to profits, have found that a once-unfashionable attitude is now generally embraced.



Henley Management College: a proponent of distance-learning programmes which are largely responsible for growth in MBAs awarded

F
The proof of the pudding

FACULTY: The high quality of a school's faculty, that is the essential foundation of its reputation, and vital to attract corporate support and good students. The number, abilities and relevant qualifications of the faculty are the chief indicators of a school's standing and they become a primary marketing tool.

Some schools, such as Chicago, can proudly claim to have Nobel Prize-winning economists or mathematicians on their staff, and American schools, in particular, set great store by their star professors. These are gurus who have built their reputations in academic journals and books, on the conference circuit and through their consultancy work.

They tend to be excellent presenters on the platform, but the time they devote to teaching and inspiring their students may be limited and they can be poached by other schools anxious to improve their marketing pull.

Top-class academic staff who possess the required combination of original and positive thought, a realistic grasp of corporate issues and, in addition, the skill to impart their knowledge and enthusiasm to their students are rare.

Apart from their own faculty members, schools will also have a number of visiting lecturers, from other schools, companies and elsewhere, who bring fresh knowledge and perspectives into the classroom.

Business school faculties have received a lot of criticism in recent years, especially in the US. The complaints are the familiar ones that staff are more interested in their research and conferences than in teaching, and that research is too often esoteric and of little relevance to real business.

The charge presents most business schools with a dilemma since research provides first-hand knowledge without which teachers are merely retailers of other people's experience, and published research is the main way the teachers can make career progress.

The performance of faculty at a business schools is judged by all departments of a university (if the school is part of a university) when they are being considered for promotion and generally these insist on a record of published original academic research. Too often original means narrow and esoteric. The school's published output is also the conventional way an academic institution as a whole builds its reputation.

However, most schools now rank teaching performance alongside research ability and track record as a criterion in recruitment and promotion. Many schools ask students to rate the performance of their teachers at the end of each course. Generally the head of the MBA programme and the business school dean see the results and at some schools these are published. The surveys are taken increasingly seriously. High performers are rewarded and the others are given remedial training.

Not all faculty will have had a business background, but most schools allow and even encourage them to do private consulting work for, say, one day a week. Lucrative assignments help to make up for low salaries, but they also build up the teacher's knowledge base.

G
Getting the right score

GMAT: The American Graduate Management Admissions Test, known universally as GMAT, pronounced "gee-mat", is a key part of getting into a business school to take an MBA since a good mark is required by all but a few leading schools.

As with all intelligence tests, exactly what it measures is open to doubt and some controversy. The aim is to measure understanding and reasoning ability, both verbal and quantitative, through multiple-choice questions and essays. Most schools find that the GMAT is a good predictor of likely success on an MBA programme, particularly the quantitative aspects.

The lower scorers may have trouble with subjects such as statistics, accounting and finance. For this reason GMAT scores are widely used as an initial screen for candidates (in spite of denials). Schools usually demand minimum scores of 550-600.

There are some doubts about the test. American schools attempting to diversify their student intake are looking beyond GMAT scores and academic records. In Europe and elsewhere, many schools run their own tests (usually only for local students) in addition to the GMAT because they find that they are more accurate predictors. Some schools also worry that the GMAT is too formulaic and that students can easily be coached in the techniques needed to gain a high score. Indeed, many alumni say it is essential to have coaching.

Recent revisions of the GMAT are intended to counter these criticisms. A new-style GMAT was introduced in October 1994. It retains the multiple-choice sections and now also includes essay questions, which are difficult to prepare in advance and will, it is hoped, tell schools more about candidates.

The essays are not a test of writing skill but of thinking ability, like the multiple-choice questions but in a different format. Schools will continue to receive the traditional GMAT score but will also get a separate essay mark together with copies of the essays. Most schools believe the addition of the essay questions to be a big improvement.

Further changes to the GMAT are happening. For a start, Harvard is to require the test from September 1997, partly as a result, it says, of the introduction of essay questions. For many years Harvard was the only major US business school not to insist on it. As from October 1997 the GMAT will also be available via computer, making the test available year-round rather than only four times a year.

Applying to take the GMAT is fairly straightforward. Administration is undertaken by the Educational Testing Service (PO Box 6108, Princeton, NJ08541, USA). A registration form can be obtained from the Educational Testing Service, together with the GMAT Bulletin of Information, which details test centres and dates and gives some sample questions. Business school brochures also generally include useful information on the GMAT.

The official Guide to GMAT Review, which contains more than 700 sample questions, one complete test and a guide to the different question sections, is also available for around \$10.

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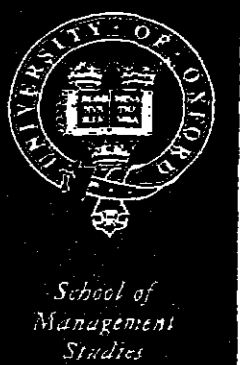
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IV BUSINESS SCHOOLS

H The grand old lady lives

HARVARD: Harvard remains the doyen of business schools. But not everything went smoothly there in the early 1990s. The school lagged behind others in the revamping of MB curricula and the general approach to management education and not a few were prepared to write off the grand old lady.

Now all that has changed. With dizzying speed, Harvard has introduced a new dean and a new MBA that goes far beyond what many had expected and which looks set to establish a new standard for the 21st century.

In 1992 Harvard began a meticulous - and some thought painstakingly slow - review of its MBA curriculum known as Leadership and Learning that was only concluded at the end of 1994. With most of the changes now in place, it seems well set to convince former critics that it is again at the forefront of business school ranks.

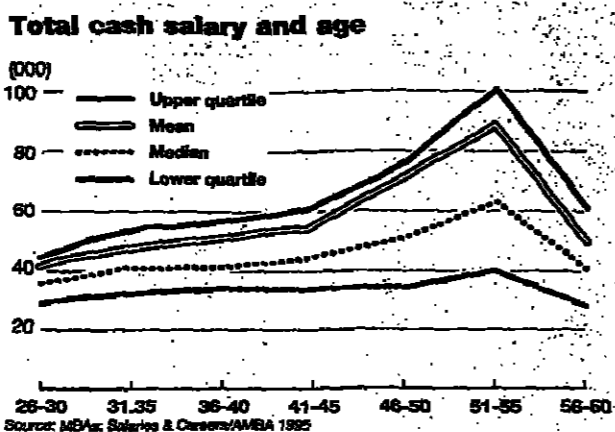
Dean Kim B. Clark, a long-standing Harvard faculty member, takes a down-to-earth view of the progress the school needs to make.

He wants to make sure that the changes under way lead to a real new philosophy of management education and that Harvard catches up in some rather basic areas, such as information technology. He also wants to ensure that Harvard is more open to the outside world - in both directions.

But as dean Clark also points out, the market, in terms of faculty, students and recruiters, has never lost faith in the school. It has no real challengers. Its placement record is second to none. About a quarter of directors in American Fortune 500 companies are HBS alumni. Each year it generates over 600 cases and 40 books.

And for prospective students? Well, who wouldn't want to go to Harvard? For starters, it has on-campus facilities that make even the wildest dreams of deans of lesser schools look miserly.

The school is sited in Cambridge, home to many of America's top educational institutions, and occupies 27 buildings and 60 acres of



I The US approach rules

INTERNATIONALISATION: Every business school now claims to be international in outlook as well as students, teachers and material. It is easier said than done, however, and the policy for many schools is only a few years old.

The basic problem is that a high proportion of the teaching material case studies in particular emanates from American research among American companies. Excellent though a lot of it is, the volume of material inevitably skews the teaching of even the most "international" of schools, which would need enormous resources to provide a counterbalance.

What is at issue is not just a matter of cultural detail, since the American, the European, the Asian, business philosophies are all different.

A second factor is that, in a static market, foreign students are a valuable source of additional revenue for most schools. They have an interest in boosting the numbers irrespective of the teaching objectives, and many schools could not exist without them.

Internationalism may be a good thing, but it has its critics. Some schools are accused of neglecting their home market. Some students point out that foreign students can limit a programme because they lack linguistic skills, their background is too alien, or they have a cultural aversion to participation.

Native speakers of the teaching language may be held back and feel obliged to help with grammar and proof-reading essays.

Harvard is also placing greater emphasis on the teaching and use of information technology.

J Courses in tandem

JOINT DISCIPLINE: A glance down the list of MBA or masters programmes at many business schools reveals the extent to which schools work with other departments within their universities to offer joint programmes - whether it be in finance, marketing or eco-

K Links to the old school

KUDOS: Possessing an MBA can reflect great kudos on the successful business school student. But it is best to exercise some tact when you let the details slip out. It would be bad form to walk around with a peaked cap sporting the motif: "Wharton alumni do it in the worst recessions" or "Insead rules OK".

A better approach would be to get hold of the old school tie or stick pin. The problem here is that, unlike the English public school ties or those from Yale, Harvard or Oxbridge, the MBA school colours do not yet spark the same recognition. Most of the schools market a wide array of mugs, T-shirts and branded paraphernalia but much of this would attract little kudos.

L Learning from the front

LEADERSHIP: Leadership is becoming an increasingly popular subject for business schools. It has become an academic discipline in its own right for MBA students to study and is also a profitable sideline for schools running courses aimed at the CEOs themselves.

Teaching leaders how to lead is a relatively recent phenomenon: until recently most training courses were concentrated on everyone in the organisation below the level of leader. Because of its peculiar nature - leaders will not be impressed by being taught by facilitators with no direct experience of leading themselves - most of the courses consist of getting a group of leaders together in order to offer advice and home truths to each other and to share experiences.

Professor Manfred Kets de Vries, the holder of the Raoul de Vitry d'Avaucourt Chair in Human Resource Management at Insead, holds a leadership seminar every year to which he invites 20 leaders. They come from a wide range of countries and a mixed bag of industries and are lumped together for a grueling session spanning several weeks in which they are encouraged to criticise each other.

Prof Kets de Vries argues that this sort of cross fertilisation of ideas and honest opinion is the best way of getting leaders (who are otherwise lonely and isolated) to come to terms with problems in their organisations.

Prof Kets de Vries was one of the pioneers in teaching CEOs as if they were fallible humans, rather than machines or positions on an organisational chart. However, in recent years most experts have come to recognise the importance of looking at the "softer" skills of the CEOs, and thinking of effects that their personalities can have on their organisations.

The realisation of the importance of leadership skills has spawned a growth industry in academic writing on the subject. Indeed there are no fewer than 70 different definitions of what constitutes a good leader - whole conferences have been held on the subject, and leadership is debated every semester at every business school.

Another way would be to drop heavily the names of your school's most prominent professors, particularly if they are a big-name guru. In such cases it would be safest if you had read one of their books or could draw on some little known fact about one of their achievements.

This allows you to start a conversation: "I remember Moss Kanter (never Rosabeth and never ever Ros) laying down the principals underlying the increasing importance of human resources in strategic planning. Very impressive." But such an opening gambit would require an answering inquiry as to where and when you heard this.

The most important point is to establish before you start how much kudos is attached to the course, the tutors and most importantly the institution. Businesses tend to have their preferred schools because of the nature of the MBAs.

As for earnings potential, it is not unusual for successful MBA students at one of the top schools doubling their salaries. Last year's full-time MBA students at Warwick Business School

increased their salaries by an average of 43 per cent after graduation.

Furthermore, postgraduate networking potential should not be ignored.

Most of the top schools boast healthy alumni associations which are closely monitored by the schools themselves so they too can point to the business success of their past students.

One of the latest combined programmes has been developed by the Sloan school of Management at the Massachusetts Institute of Technology. MIT has traditionally been renowned for the quality of its scientists and engineers.

The System Design and Management degree course will be launched in January 1997 and has been devised with the help of corporate sponsors including Ford, AT&T, Motorola, IBM and Raytheon who have been involved in a pilot scheme.

The SDM programme is based on distance learning - the first time that the Sloan School has run a fully-fledged distance-learning course - and so experienced engineers will soon be able to complete the best part of a masters degree in design and management without leaving their desks.

The faculty will use compressed video technology to interact with the multiple remote sites during classroom sessions and will distribute material over the Internet.

Students who complete the programme will receive a joint masters degree in management and engineering from the Sloan school and the MIT school of engineering.

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M More than English

LINGO/LANGUAGE: English may be the international language of business, but the internationalisation of the economy means it is no longer enough for English speakers to have a smattering of schoolboy French. At London Business School all students on the MBA programme are required to have sufficient fluency in another language to be able to negotiate in business, in writing and in person before they can graduate. Onerous as this makes the course for UK nationals, many apparently choose the course for just this reason, according to LBS.

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N The recycling buzz

LIFELONG LEARNING: The concept of lifelong learning is the latest buzz phrase to excite business faculty on both sides of the Atlantic.

Behind the concept is the idea that the pace of change in business is so rapid that the qualification you obtained two or three years ago is no longer up-to-date.

The appeal to business schools is that they can then extract more cash from alumni to continually retrain them. The challenge is to ensure their alumni return to them for their education rather than shifting allegiance to other schools.

The Sloan School at MIT, for example, is planning to introduce a voucher system, so that graduates would leave with a handful of vouchers which they could cash in several years into the future.

Harvard recognises its publishing arm could play a big part in keeping graduates up-to-date through sales of its books, journals and CD-Roms. But, admits Mr William Sahlman, director of publishing activities at Harvard, "We haven't worked out how much people are prepared to pay for it."

O One of the plebs

KNIGHTS: In terms of one-upmanship there can be little to beat having a knight of the realm on the staff. Such is now the boast of London Business School.

Economist David Currie, director of the Centre for Economic Forecasting at LBS, is the first LBS academic to be awarded the title of baron. Lord Currie, as he can now be known, is a former member of the UK Treasury's panel of economic advisers referred to as the "wise people".

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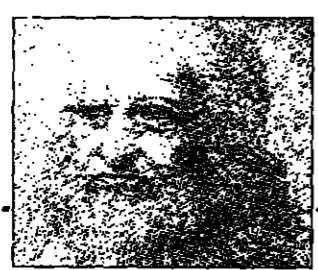
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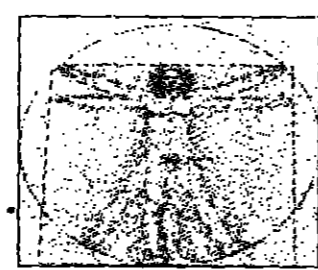
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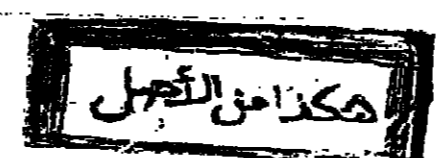
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- 1996 graduate



Time is money

LENGTH OF COURSE: Should an MBA programme be one year or two years long? Should executives be expected to give up six working weeks to study for management courses?

Such are the questions facing every business school as it heads towards the millennium. With time proving an ever more expensive resource for busy executives, the resounding response is that courses have to get shorter. Even at Harvard Business School, the bastion of traditional courses, architects of both the MBA programme and the executive courses have recognised that brevity sells courses.

White Harvard held out for a two-year MBA course for many years, from January this year, it introduced a shorter course starting in January rather than the traditional September.

On the executive education front, Harvard's latest course, intended for recently-appointed managers, ditched the usual six-week format in favour of two three-week course periods between which participants return to their companies for seven weeks to put into practice the techniques they have learnt on the course.

The school has given up completely the concept of the six-week course, reports Professor Earl Sasser, senior associate dean and chair of executive education at Harvard, "but the customer can get away for three weeks at a time more easily than six." While most MBAs at US schools have traditionally been two years in length, and taken students in their early to mid-twenties, the European model for the MBA largely relies on taking

older students - often in their late twenties - and compressing the course to a year, omitting many basics.

However, many US business schools are now reporting intakes with older, more experienced students, begging the question as to whether they will be forced to cut the length of their programmes.

While most UK full-time programmes are for one year and a part-time programme two years long, Cambridge University has gone out on its own in introducing a programme which spans three academic years. The programme at the Judge Institute in Cambridge involves three terms of full-time study and one year of practical work experience and work-based assignments. The structure demands much from both the student and employer, but argue the Cambridge dons, the benefits are enormous.

Nothing but the best

LUXURY: Many European business schools are emulating their American counterparts and devising MBA programmes for specific target groups, but none has the caché of a course run by Essec Graduate School of Management.

The 13-month MBA programme specialises in luxury brand management and has been designed in conjunction with companies such as jewellers Cartier, champagne producers Moët & Chandon and a host of fragrance companies. The companies themselves participate in the project work of the students on the course.

The programme is held in Paris (where else?) and intended for those who want to work in the luxury brand business. The organisers may find themselves somewhat over-subscribed for the 20 places on the course....

Special value added

MINORITIES: Long under-represented, both at the business schools and in corporate offices, MBA graduates from minority ethnic groups find that they are now highly desired commodities, particularly in the US. Their particular desirability to the corporate world is two-fold: companies have realised that they have minority customers, and want to target them; and they are waking up to the special skills many minority students possess such as bilingualism or familiarity with other cultures.

In the US in recent years the efforts of minority MBA organisations such as the National Black MBA Association and the National Society of Hispanic MBAs have also helped boost the number of minority students who have applied to business schools, creating a larger graduate pool.

As corporate America places more value on having a diverse workforce, executives have discovered that conferences sponsored by minority MBA organisations are fertile recruiting ground for employees.

In Europe minority groups have been slower to organise professional bodies to represent their causes. The only overseas affiliated member of the American National Black MBA Association, for example, is the UK's African and Caribbean Finance Forum, which is run completely by volunteers.

The new mindset

MINTZBERG: Canadian Henry Mintzberg, acknowledged management guru, has often expounded his strongly-held view that in-house training programmes lacked depth, while MBA programmes were too detached from the actual management practice.

In March this year, he got a chance to put his theories into practice with the International Masters Programme in Management, an alternative management programme devised by Mintzberg and other academics.

McGill University in Canada and Insead in France, where Mintzberg teaches, have teamed up with Lancaster University in the UK, Hitotsubashi University in Japan and the Indian Institute in Bangalore to run the programme. The programme is

designed for some 40 high-flying managers from a small consortium of companies drawn from North America, Europe, India and Japan. The taught element of Mintzberg's course comprises five modules of two or three weeks - each on a different campus, starting with Lancaster and followed by the participating universities in Canada, France, India and Japan.

Students can then complete a thesis, related to their day-to-day work, to get a masters degree from either McGill University or Lancaster. About 80 per cent of the students on this first course will go for the masters.

The course uses tutorials - a peculiarly British teaching method - to help weld the 12 weeks of coursework into a cohesive 16-month programme. Once during each residential part of the programme, and once between each taught element, the individuals peel off into company groups for discussion with a tutor.

Matsushita and Fujitsu, the two Japanese companies, form one tutorial group. BT and Telnor, the Norwegian telephone company which has a joint venture with BT in Sweden, a second, and the Indian companies a further group.

Mintzberg has got away from the traditional subject areas such as economics and marketing and focused on what he calls "mind-sets" - the reflective mindset, the worldly mindset and the catalytic mindset, for example.

Although such an approach to topics is new, the consortium MBA approach has been around for some years. At City University Business School, for example, a consortium MBA programme has been in place for some 15 years.

Between 40 and 50 companies have sponsored students on the course over that period, including big names such as Texaco.

Every few months the corporate sponsors meet up to swap ideas on how the course is going.

Keeping the ties that bind

NETWORKING: When graduates of full-time MBA courses are questioned about the value of the courses they all produce a similar answer. Whatever the academic or practical worth, one of the most important advantages of an MBA is the friends you

meet on the course. For many it is a cathartic experience, spending many evenings in small groups trying to reach a consensus on management issues.

Twenty years after graduation, many still keep in touch on a personal level, as well as through the alumni networks and reunions organised by the business schools. Many work together or use their contacts to lever business advantage.

The big challenge for schools which offer only correspondence courses is how to emulate these relationships. Few have been successful, with only the Open

University in the UK having achieved some success with alumni groups.

But perhaps the biggest leverage of all is not student on student but business school on student. The network of alumni provides much-needed funds for many business schools, not to mention the ability to bring back old students to talk to those who follow in their footsteps.

Most proficient of all at these skills is Harvard Business School, which can boast an impressive array of alumni in the top jobs of both corporate America and many of the smaller entrepreneurial companies.

Matching and mixing

QUALIFICATIONS: Not every graduate business school offers just a master of business administration degree and not every MBA is in general management.

A reading of any business school prospectus will throw up all sorts of specialised MBAs - in marketing, finance or design. The spread is particularly prolific in the UK, where smaller business schools rely on the expertise in other areas of the university to develop courses.

For those who want to be even more specialised many business schools also offer straight masters degrees, such as London Business School's masters degree in finance or the masters in design management offered by SDA Bocconi in Milan.

Such courses often staff the business schools into competition with professional bodies, such as the International Securities Market Association in Zurich. ISMA recently set up a dealing room at Reading University, in the UK, where students work towards an MSC in international securities, investment and banking.

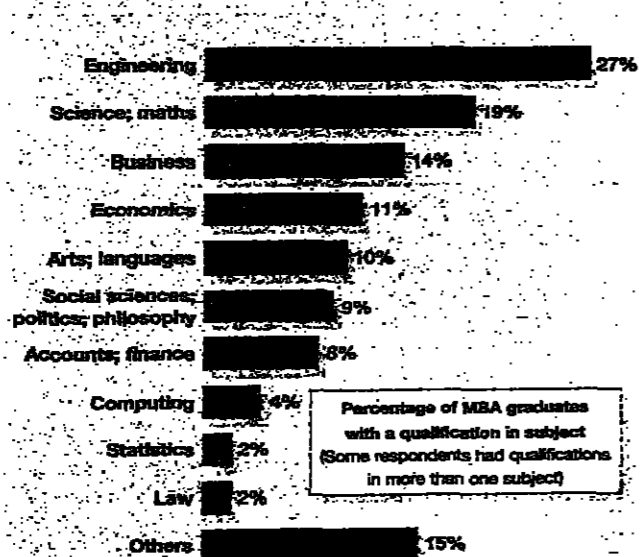
This nine-month course, launched two years ago, differs from most post-graduate degrees in finance and banking in that it stresses the importance of practical experience to back up the theory. With institutions keen to recruit well-trained staff who can hit the ground running - rather than generalists who need months of training - many students see the course as a stepping stone into London's financial services industry.

Women students (%)

School	Percentage
Singapore	53
Norwegian (Econ)	50
Chinese (HK)	48
Stirling	45
Birmingham	44
European	40
Lancaster	40
NIMBAS	40
Monash Mt Eliza	40
Sheffield	39
Southern California	35
Thunderbird	35
Weatherhead	35
City	37
Dublin (UCD)	37
Hong Kong UST	37
Toronto	37
Ashridge	36
Asian Institute	36
Arthur D Little	35
Durham	35
IE	35

Source: Various MBAs, E.U. 1995

Main qualification before business school*



Source: Ashridge Guide to Business Schools 1996/97

*1992 figures

By the right...

MILITARY: First it was the civil service, then it was hospital staff, now the UK military are finding themselves shipped off on management courses.

The UK's Ministry of Defence is sending some 300 senior or middle managers - including uniformed officers as well as civil servants - for management training over the next three years.

Ashridge Management College in Hertfordshire has been given the job of delivering the programme.

Money amidst the spires

OXFORD: Oxford University has long been regarded as one of the most prestigious in the world. In 1996, it certainly made the biggest headlines in the world of business schools when it announced that Syrian-born entrepreneur Wafic Said was to give £20m to the School of Management Studies at the university, to be renamed the Said Business School.

This is a large sum by any school's standards, not least for one that is not yet built. Indeed, the university has not yet received planning permission for the city-centre site needed by the school. The lion's share of the £20m donation is intended to go towards the construction of the new building on a sports ground.

Nevertheless the school has already begun its first MBA programme with some 40 students and has appointed Professor John Kay as the new director of the school.

Recently in the limelight as an adviser to Mr Tony Blair, leader of the Labour party in the UK, and a proponent of the concept of stakeholding, 48-year-old

Kay has built a reputation among both business and academic communities for his application of economic analysis to business issues.

Prof Kay made his name as a director of the Institute of Fiscal Studies, and is chairman of the business consultancy he founded 10 years ago, called London Economics. He is also a visiting economics professor at the London Business School and a former economics lecturer at Oxford.

Said's donation has been welcomed throughout the business school community because it raises the stakes for potential benefactors and raises the profile of business as an academic subject. With a universal move away from government funding for graduate management education, UK institutions are not alone in looking for sponsors.

But even in the US, which has a far longer tradition of this form of sponsorship, £20m is a lot of money. It outstripped the recent donation of \$30m (£19.2m) given to the Graduate School of Business at Babson College, in Massachusetts, now called the Franklin W. Olin graduate school of business in recognition.

And in the UK, Said is certainly setting the pace. Sir Paul Judge gave £8m to Cambridge University to set up the Judge Institute and Oxford's Templeton College received just a little more than £7m in two tranches from Sir John Templeton.

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VI BUSINESS SCHOOLS

UK universities: research assessment

University	Ranking
Bradford	5
City	4
Lancaster	5
London Business School	5
Loughborough Univ. of Technology	4
UMIST	5
Southampton	4
Warwick	5
Strathclyde	5
Wales, College of Cardiff	4

Top ranking 5 indicates some research of international excellence with rest of national excellence.

Source: AMBA/Guide to Business Schools 1996/97

Right for the job

RECRUITMENT: It is still the case that the MBA carries far more weight in the US than it does in the UK or the rest of Europe. Some US institutions, for example have a policy of recruiting graduates, employing them for two or three years as analysts, then parting company with them while they get a post graduate MBA. If they are lucky and successful in their studies they may be re-employed on the corporate finance side of the business.

Mr Andrew Lowenthal, head of Banking practice at Egon Zehnder International, the search consultancy, said that clients seeking people to fill senior posts such as that of chief executive in a public company would still be more concerned about track record rather than whether the individual possessed an MBA. "Companies, however, are becoming more interested in people who may have experience at one of the top consultancies and this almost inevitably mean that they had an MBA," says

Mr Lowenthal. Both Mr Archie Norman, chairman of ASDA and Mr Colin Dyer, chief executive of Courtauld Textiles are examples of MBA-holding executives who spent their early careers with the McKinsey consultancy.

Mr Egon Zehnder, the Swiss lawyer who founded the headhunting business, is an MBA graduate of Harvard Business School. The firm insists, with few exceptions, that its consultants possess an MBA or the equivalent in the form of a second degree. If the MBA is matched with a spell working for one of the top consultancies such as McKinsey, Boston Consulting or Anderson Consulting the chances of landing one of its highly paid headhunting posts are even better.

Catching up again

REFRESHER COURSES: The latest type of course now being offered by business schools is a refresher course, for alumni who took their MBA degrees several years ago and want to brush up on the latest in macro-economics or accounting. The courses usually last a few days or a week.

In it for the money

SALARIES: One of the biggest motivations for studying for an MBA course is the resulting increase in salary you can expect on graduation.

In the glory days of the early 1980s MBA graduates in the UK, for example, reported a 57 per cent increase in the salary they earned on graduation over their salary on starting the course, according to the Association of MBAs (Amba). A similar survey among those who graduated in 1994 reported an average increase in salary of just 28 per cent, with the median salary for employees with an MBA standing at £39,000.

However, the value of an MBA would appear to be on the rise again, particularly in the US where the qualification is proving increasingly attractive after the lull of recent years. A survey conducted in March this year by the director of career services at Duke University's Fuqua School of Business looked at the graduation salaries and remuneration packages of graduates from 11 top-tier MBA programmes. It showed that the graduating class of 1996 started work at a mean annual salary of \$69,387 (\$44,479). Including signing on bonuses, the total first year remuneration was an average \$82,880. Some of the very top schools report even better salary figures for their graduates. At the Sloan school of management at MIT, for example, the class of 1996 reported median starting salaries of \$103,500, including bonuses.

Schools targeted in the



The Wharton School: the average starting salary for its MBA graduates tops the list

Fuqua survey were the Amos Tuck school at Dartmouth, the Anderson School at UCLA, Indiana University, the Kellogg school at Northwestern University, the University of Chicago, the Darden school at the University of Virginia, Wharton at the University of Pennsylvania, the Katz school at the University of Pittsburgh and Stanford University.

High life left behind

SOCIAL LIFE: Abandoning your social life appears to be a pre-requisite of business advancement in the 1990s. So you might as well get used to it from the start. Studying for an MBA, particularly if it is a part-time course undertaken while doing a full-time job is going to eat up most of your spare time.

Forget the campus approach of the average student fresh from school who soon gets into the routine of the odd lecture and essay interspersed among the

three-year jamboree of booze, sex and partying. There is hardly an MBA in existence that can be achieved without hard work. For those who do not see the MBA course as a stretch of corporate-flavoured porridge, one option is to begin socialising with fellow MBA students who are not going to fall asleep over a discussion of the merits of the Hawthorne Experiments or the concepts of Theory X and Theory Y.

London Business School says that its MBA courses have been something of a match-making service. It says several couples have met and subsequently married while studying there. The LBS said: "It has become quite common. They are working so hard they don't have the time to meet anyone else."

Virtual trading reality

SIMULATED TRADING: Wall Street beckons for many an MBA graduate. So

the Sloan School of Management at MIT, in Boston, has installed a \$3m (£1.9m) simulated trading floor in its basement to train its graduate management students in the art of making money.

With glowing green Nasdaq figures whistling electronically across one wall and stock prices from Far Eastern markets shooting across computer screens, the room looks like any other trading floor except for the professor at the front.

The room is so realistic, in fact, that Wall Street firms are talking about visiting the students to see what they are working on.

Taking on the boffins

SCIENTISTS: A scientific mind is no bad thing in the world of business. But only recently have business schools decided to woo scientists on to their graduate management programmes.

While universities such as MIT (the Massachusetts Institute of Technology) have been renowned for enrolling good science and engineering students on to their general business school programmes - this year about 50 per cent of the students on the Sloan school's MBA programme have a technical background - Cornell has been the first to devise a scientist-only programme.

The Cornell course takes scientists and gives them a general management train-

ing - rather than training general managers in science or technology. Because so many qualified scientists have spent years doing research, Cornell felt it would have to build a shorter programme than the traditional two-year course in order to attract them. So the school developed a course in which the former science students spend 10% rigorous weeks studying the basics of micro-economics, finance and so on, then join the 230 general MBA students for the final year of their course.

With vast cuts in basic research resulting from the end of the cold war and industry cuts, many scientists are now eager to turn themselves into businessmen, says Mr Alan Merten, dean at Cornell's Johnson graduate school of management. "There is less need for highly trained scientists but more need for the diffusion of science in business."

The coming of age

SILVER JUBILEES: It is twenty-five years since American business schools decided it was time to encourage European universities and institutions to follow the US model. The institutions they set up at the time are now celebrating their silver jubilees.

The European Foundation for Management Development (EFMD), the European business school club which is now at the heart of the debate on accreditation of European business schools, was one organisation set up at that time.

Another was the European Institute for Advanced Studies in Management (EIASM). EIASM, set up as an academic network to spearhead American-style business education techniques in Europe, was bolstered by funding from European governments when it was set up 25 years ago. The last of the government cash evaporated last year and a hard-headed financial reality has now replaced the blue skies approach to management research of the 1970s.

Ms Gerry Van Dyck, who was appointed director of EIASM last year, sees her role as masterminding the transition of the institute

from a purely academic to a truly commercial organisation. "As resources are getting more scarce research has to fulfil several functions," says Ms Van Dyck. Her aim is to persuade business schools to commit themselves as institutional members of the organisation and to back their commitment with cash.

As well as acting as an information source, the institute runs small-scale meetings - between 20 and 30 a year - on specific topics, accounting research, say, or production control. It also organises conferences and newsletters for outside organisations.

Trek to the new frontier

SOUTH AFRICA: South Africa is proving a particularly popular haunt for MBA students seeking unusual placement opportunities and for business schools looking to drum up business.

Cranfield School of Management in the UK, for example, has developed an International Development Consultancy option on its MBA course following a highly successful trip by its students to Cape Town, where they helped everyone from small business directors to street vegetable sellers to write business plans, address marketing needs and arrange finance.

The Erasmus Graduate School of Business at the Rotterdam school of management has set up exchange programmes with four South African universities, Stellenbosch, Witwatersrand, Pretoria and Capetown and part-time students from Erasmus have already visited their counterparts in South Africa.

At the other end of the scale Oxford's Templeton College, together with consultants Ernst & Young, set up the Oxford Southern African business leadership programme to help companies that want to do business in southern Africa. The course was held in the Magaliesburg hills, a 90-minute drive from Johannesburg. The residential two-week programme looked at business processes, strategy and the business environment amid the usual attractions of a African safari park.

Average starting salaries of recent graduates from selected schools* (\$)

North America	Europe	Rest of world		
Wharton	90,000	ISA at HEC	79,904	Australian GSM
Columbia	80,000	INSEAD	78,506	Melbourne
Harvard	75,000	IMD	74,513	Curtin
MIT Sloan	75,000	London	70,700	Singapore
Stanford	74,284	Groupe ESC Lyon	67,918	Wits
Chicago	73,000	Warwick	65,803	Chinese University
Arthur O Little	72,000	Norwegian (Man)	62,344	Hong Kong UST
Kellogg	70,000	RSM/Erasmus	61,106	Asian Institute
Carnegie Mellon	68,579	City	56,821	Indian Institute
		Nijenrode	54,350	

*Supplied by schools; converted using average rates for Jan 1996; data not available for all schools. Source: Which MBA? EU 1996

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Abroad is part of the deal

TRAVEL: For many a business school student travel does not mean a mind-broadening trip around the Himalayas. Nor does a long weekend mean the joys of a luxury hotel and a guided city tour. For them, travel is all part of the deal when they decide to study for an executive MBA.

A growing number of students now travel overseas to study for executive MBA degrees, particularly in Europe, and several US business schools are cashing in on the trend.

The University of Chicago, for example, transposed its international executive MBA

course to Barcelona in July 1994. The 18-month Chicago executive course draws in mature students from across Europe and even further afield. Of the 107 students on the two ongoing courses only 28 are resident in Spain and only 20 are Spanish. Students travel every month from as far afield as Angola and Venezuela and several are Americans working overseas. Indeed 45 per cent of the students on the course work in a country where they are not a national.

In North America there is also a growing demand for cross-boundary MBA study. Georgetown University in Washington DC, for example, has been running an executive MBA programme since September 1994. This September the course took on its first overseas student. And there are several overseas students on the flexible MBA programme run by the Katz school at the University of Pittsburgh, Pennsylvania. The advantage to the stu-

dents is that they get to meet peers from other countries and cultures and can study without leaving their jobs.

Much needed relief

TAX RELIEF: One of the thorniest issues for students studying for an MBA in the UK is whether they can get tax relief on their fees if they pay for their course themselves - companies who sponsor students are automatically eligible for tax relief on the fees they pay.

Lobby groups are hoping that all students will be eligible for the tax relief, but at the moment only those who study on full-time courses of less than a year can claim a payback. The 80 per cent of MBA students who study part-time are not eligible.



The Baker library at Harvard University (left) and the European Business School in Regent's Park, London (right): MBA hands reach across the sea



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Drawing a wider audience

UNDERGRADUATE COURSES: It is not just the aspiring graduate who wants to study business these days. Applications for undergraduate business courses is also soaring.

A recent survey conducted in the US by the Kenan-Flagler business school, at the University of North Carolina at Chapel Hill, revealed that there was a 26 per cent increase in enrolment in undergraduate business courses in the US between 1992 and 1995. At the same time the grade point averages of the students entering the courses rose, dispelling fears that more students meant a lower quality.

The survey was completed by the deans and programme administrators of 31 leading undergraduate business programmes who attended the 1995 National Symposium on Undergraduate Business Education. The study also showed that technology has

had a big impact on the curriculum, with courses such as "Commerce on the World Wide Web" now available. Most courses have also changed to incorporate global issues in the curriculum and now have more writing and presentation opportunities. There has also been an increasing interest in internships to ensure that students have relevant business experience.

The new values

UNIONS: Britain's trade unionists are realising the value of a management education, up to and including MBA level. In May the Engineers and Managers Association, representing 32,000 professionals in industries such as aerospace, electricity supply and shipbuilding, joined with Britain's Open University to offer an MBA to union members and other engineers and managers. Its MBA in Technology Management is offered at fees individuals can afford so that they can take charge of their own education.

Coming forward first

VOLUNTEERISM: The stereotype of the 1980s business school graduate may have been the hard-headed, egotistical money-grubber, but in the apparently more caring world of the 1990s, business schools and their students are putting an increasing emphasis on volunteer work.

American schools, in particular, are establishing formal volunteer programmes and reporting a surge in student interest. At Columbia Business School, for instance, about one-third of students now volunteer for community work on a regular basis, compared with just 4 per cent five years ago. Nearly half of Boston College's business school students are involved in the volunteer programmes. Wharton, at the University of Pennsylvania, has made community service a part of the required curriculum for its undergraduate business

students, who receive grades based on their performance.

But the moves are not purely altruistic. One pay-off is improved relations between the business schools and the neighbourhoods in which they operate. And students may grow from the experience as well. Professors often bemoan the fact that their charges too often come from affluent backgrounds where they have little contact with people of different ethnic backgrounds and economic means, a distinct disadvantage in corporate America where the ability to mix with workers of different backgrounds is considered central to success.

Recruiters also believe volunteerism can build leadership and skills and team-work and give students a chance to use the tools they learn in the classroom.

After the past, a future

VIETNAM: While eastern Europe was the international focus of many business schools during the early 1990s, today there is a grow-

ing interest in South East Asia and particularly in Vietnam.

Last December saw the first business development conference for 20 years to take place in Ho Chi Minh City. The conference was sponsored by the DePaul University in Chicago together with the Australian Swinburne University and the Vietnam Chamber of Commerce.

Then in May, the Amos Tuck School of Business Administration at Dartmouth College, New Hampshire, announced that it had begun a co-operative executive programme with the Vietnam National University's new Hanoi School of Business. The programme was designed to train Vietnamese managers in American business skills.

Thirty senior-level Vietnamese managers were on the first course in Hanoi, which lasted 12 and a half weeks and provided intensive study in accounting, business planning, marketing and other management skills. Included in the course was a trip to the US where participants toured organisations such as Boeing and the New York Stock Exchange. Final courses in the programme were taught on the Tuck campus.

Reasons for studying for an MBA degree*

	World	N. America	Europe	Rest of world
To open new career opportunities	37	40	37	39
To improve management skills	2	1	2	1
To further career	13	9	13	13
Highly competitive job market	1	1	1	1
Potential to network	4	3	4	5
Educational achievement	8	12	8	6
Other	29	22	29	29

* Respondents ranked by students of each factor - including personal development. Source: Which MBA? EU 1996

Criteria for choosing a school*

	World	N. America	Europe	Rest of world
Programme content	17	19	24	10
Reputation of school	36	35	32	41
Teaching methods	5	4	6	6
Careers services record	1	2	1	1
Press advertising	31	<1	1	<1
Location	16	14	16	20
Published sources	5	8	4	6
Friends' recommendation	7	5	9	7
Quality of teaching faculty	10	10	11	10
Starting salary of graduates	1	1	1	1

* Respondents ranked by importance of each factor. Source: Which MBA? EU 1996

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W
Greater equality in the US

WOMEN: Students on MBA courses have a lot in common: they are bright, able and often pretty rich. Moreover, most are men.

The lack of women is a particularly acute problem in Europe, where schools require several years of solid work in the business world before they will accept students on the course. That means that European MBA students tend to be in their early thirties.

In the US, on the other hand, students are usually 26 or 27 years old and usually not so concerned with issues such as bringing up a family. There is a consequent higher proportion of women on MBA courses - about one third of US courses tend to be women.

According to recent figures published by IMD, in Lausanne, in Europe the number of women on MBA courses is as low as 15-30 per cent, varying from country to country. So concerned are many of the European schools that some - IMD, London Business School, Manchester Business School and Lancaster in the UK - have devised scholarships to fund women through the courses.

Others believe much of the problem lies in the presentation of the courses. An MBA is often marketed as an aggressive curriculum, highly competitive and certainly hard work. The goal at the end is often seen as a higher status and lots more money.

Women may not want to study on this kind of course, says Ms Susan Vinnicombe, dean of management and administration faculty at

Cranfield's School of Management, in the UK. "Women are much more likely to talk about job success in terms of an inner psychological dimension," she says.

At Manchester Business School, the problem was identified several years ago and promotion material for the Manchester MBA was changed to stress that the course handled "people skills" as well as the subjects such as economics, accounting or statistics.

The result has been a sizeable increase in the number of women students on the Manchester MBA. In 1993, only 26 per cent of students on the part-time MBA course were women. This year, the figure is 52 per cent. The full-time course has 27 per cent women students.

Mr Andrew Dyson, director of post-graduate administration at Manchester, puts the popularity of part-time courses down to the fact that many women in their early thirties want to take a career break for family reasons. They are therefore unwilling to take a further year off to study.

For those women who do get MBAs the employment prospects are very favourable. Not only are employers queuing up to employ women with MBAs, but women MBA graduates experience a far greater net income gain from their degrees than their male counterparts, according to a survey completed by the Fuqua School of Business at Duke University.

The differential, however, is largely due to the lower pay rates of women without an MBA. Before entering an MBA programme women students earned a mean annual salary of \$40,254 (£25,800), compared to \$48,860 for men, a net difference of about 21 per cent. Starting salaries for MBA graduates showed no difference between pay for men and women and now stands at around \$69,387.

A-Z WRITERS

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Be sure the choice is right

WHICH MBA? With the increasing number of business schools offering MBA courses, and the growing diversity of courses from each school, it is not surprising that even the most informed applicant can get befuddled by the choice.

Advice from the professionals could provide some of the answers.

If you are rich enough you should aim for one of the top US schools, believes Professor David Norburn, director of the management school at Imperial College London. In particular he believes Stanford and Harvard, both two-year courses, give the "best alumni leverage and brand name."

But you need to be seriously rich as two years of course fees, living expenses and the cost of being out of work could set you back more than £100,000.

Professor George Bain, principal of London Business School believes students should focus more on their own personal requirements. "If you seek a position with a top-flight international company, then look for a top-flight MBA programme. Look for a school with good links to the kind of companies you want to work for," he says.

In the US, where league tables are a way of life, rankings are one way to assess the reputation of schools and the American Assembly of Collegiate Schools of Business runs an accreditation scheme to sift out the weaker ones. In Europe, there is a fledgling accreditation process but schools tend to thrive on reputation alone.

As well as studying the school, applicants should study the programme: no two programmes are the same. Students should ask themselves whether they want a course which will give them skills in general



Women's participation in MBA courses has been increasing and the financial rewards are beginning to match those of men

management or a specialist function - many MBAs are now tailored for specific professions, such as designers or marketing staff. Studying abroad could be used as a way of learning a new language.

Even if your preferred school is overseas you should try and visit during term-time and talk to both the faculty and the students. For those planning to work and study simultaneously, practising students will provide the best guide to the workload involved.

And applicants should assess the culture of the school: is the atmosphere competitive or co-operative and which is most appropriate?

At the end of the day, says Prof Bain, you should not be swayed by fashion. "Don't be rushed into picking a particular school because of its reputation in a few fields or because 'everyone else is going there'. This is one of the most important decisions you will make in your career: make sure it is the right one," he says.

X
A new creeping target

GENERATION X: Generation Xers, the latest group of young people to replace the baby boomers and the yuppies, may not be the traditional intake of

MBA students. A disparate group recognised mainly in the US, they are characterised as young, cynical about the values of corporate culture and often under-employed.

But while only a few might go on to study for business degrees, they are creeping on to courses in different ways.

How do you manage Generation X employees? How do you target market to Generation Xers? Such are the courses now being devised, with plenty more to follow.

Y
Savour of the bouquet

YEARS: Business schools are a bit like good wines: they come in good years and bad years. And this rating all depends on the students who apply, or, more particularly, on what they do when they leave.

The London Business School class of 1979, for example, can boast Wong Kan Seng, the Singapore minister for home affairs.

Meanwhile Insead, at Fontainebleau, is particularly proud of its class of 1969, which numbered Lindsay Owen-Jones, the English chairman of L'Oréal, as a member.

IESE, the International Graduate School at the University of Navarra, now preens itself in the glory of Luis Enrique Yarru, director of the Santiago Stock Exchange. He graduated in 1975.

It is all good elitist stuff for the wine connoisseur as any trip across the Atlantic will reveal. Over there, if you go to any one of the top US business schools, Wharton, say, or Harvard, most years are reckoned to have been good years.

Z
Please do not feed

ZOO: Every school boasts its own particular local attractions, be it good restaurants, spectacular views or a mind-blowing nightlife.

But the London Business School has an attraction all its own: the London Zoo.

For those who prefer apes to accounts and elephants to economics, spiders to salaries and yaks to yearly assessments, the zoo is just a short walk from LBS across London's Regent's Park.

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